

# 'The Transforming Bank'





### Dress-up dolls

This year's annual report theme harks back to a childhood favourite of the 1950s and 1960s, the cut-out dress-up doll. These figures, reproduced in thousands of publications, helped a generation of children – boys and girls – develop the concept of role-play and make a perfect metaphor for versatility and multitasking.



## One bank, many services

Everybody knows what Bankers do except when it comes to Nations Trust Bank. We're busy reinventing the whole concept of a bank from the bottom up. New products, new services and a new definition of the relationship between banker and customer make us the bank which is transforming itself to serve you better.



Check us out before  
you check out

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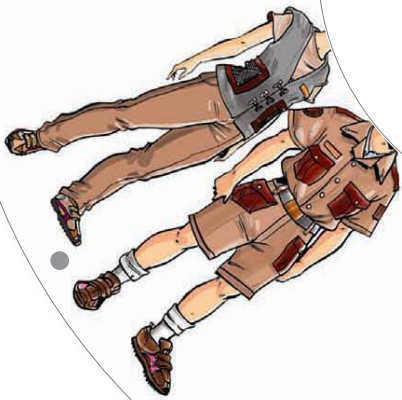
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Delivered to  
Your Door



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## Vision

Making life simple by being the benchmark of convenience.

## Mission

Be innovative in continuously developing customer centric solutions.

Unleash the talent of our team to be the best in the industry.

Consistently grow market share and be the most profitable and respected Sri Lankan bank by 2015.

## Values

- Inspirational leadership
- Integrity in all our dealings
- Open communication
- Learning focused
- Meritocracy
- Prudent risk management
- Respect for all
- Innovation and continuous improvement
- Nurture relationships
- Socially and environmentally responsible

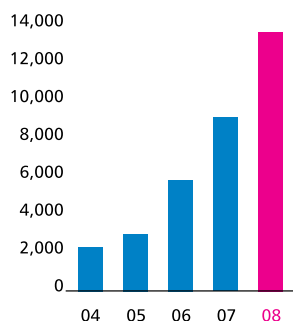
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# Financial Highlights

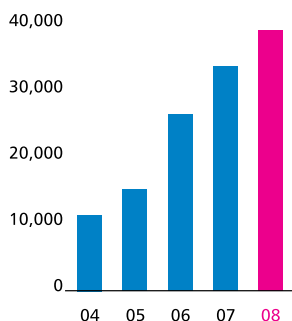
## Gross Income

Rs. mn



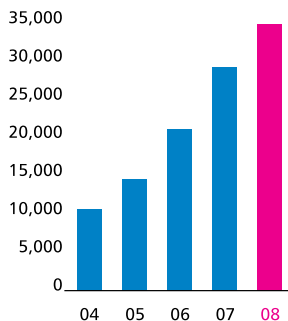
## Loans & Advances

Rs. mn



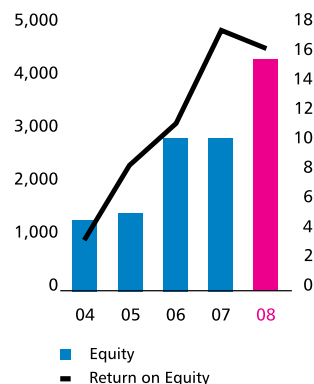
## Deposits

Rs. mn



## Equity

Rs. mn



	Group 2008 Rs. mn	Group 2007 Rs. mn
<b>Results for the year</b>		
Gross Income	13,877	9,342
Profit before Taxation	1,029	847
Provision for Taxation	435	342
Profit after Taxation	593	505
<b>At the year end</b>		
Shareholders' Funds	4,342	2,868
Deposits	34,146	28,666
Repurchase Agreements against Corporate Debt Securities	3,050	3,100
Loans and Advances (Net)	39,940	34,500
Total Assets	67,733	55,688
<b>Information on Ordinary Shares (Rs.)</b>		
Earnings per Share	3.67	3.91
Net Assets Value per Share	25.89	22.81
Market Value at the year end	22.25	29.75
<b>Ratios (%)</b>		
Return on Average Assets	0.96	0.98
Return on Equity	16.45	17.62
<b>Capital Adequacy Ratios (%)</b>		
Tier I	10.31	7.20
Tier I & II (Total Capital)	15.70	10.44



# Come Fly with Us

Racking up the frequent-flyer miles is a snap for Nations Trust Bank customers thanks to a new collaboration platinum co-branded loyalty programme with SriLankan Airlines. Card members will earn SriLankan FlySmiles miles on everyday purchase as well as whenever they fly SriLankan.



**“We will continue in our quest to be the epitome of simplicity while providing our valued customers ‘unparalleled and unprecedented levels of convenience’.”**



It is with great pleasure that I present to you the Annual Report of your Bank for the year ended 31st December 2008.

### MACROECONOMIC ENVIRONMENT

The year 2008 was a year of significant change and volatility - both globally and locally. Globally, commodity prices reached unprecedented levels during the first half of the year which together with the sub-prime crisis led to a global economic meltdown during the second half of the year. The faith and confidence in the financial services sector as a whole was severely dented by a spate of high profile bankruptcies and bail-outs in developed economies. In Sri Lanka, while the effects of these adverse developments did not fully impact the local economy in 2008, we did see a reduction in dollar liquidity leading to a drop in our foreign currency reserves. Despite a tight monetary policy by the Central Bank of Sri Lanka (CBSL), inflation rose to a level of 28.2% in June 2008 on a point-to-point basis and remained above 20% during most of the year.



“In the backdrop of a slowing down of the Sri Lankan banking industry, your Bank managed to grow its business volumes at above the industry growth rates, thus signifying an increase in its market share.”

The action by the CBSL of a tight monetary policy together with the dramatic drop in commodity prices in general and crude oil in particular resulted in containment and now, a reduction of the rate of inflation. This trend is expected to continue during 2009. The significant progress made by the Government in its military campaign and the liberation of areas that have hitherto been under the LTTE control and hence not in the local economic mainstream also augurs well for the country.

However the continuing global economic crisis and its potential fallout on Sri Lanka is a cause for concern. It is imperative that the Government formulates a local economic stimulus plan to avoid business closures, job losses and economic contraction as is taking place globally. The opening of the North and the East of the country presents a significant opportunity in this regard.

The economic developments of 2008 led to a slow down of the local banking industry with deposit growth being only 7.5% for

2008 against 16.3% in 2007 and loans & advances growth being only 6.0% for 2008 against 18.9% in 2007. Credit quality also deteriorated and the average non-performing loans ratio of the banking industry went up from 5.2% to 6.2% during the year.

#### PERFORMANCE DURING THE YEAR

Despite the turbulent macroeconomic environment, your Bank performed exceptionally well during the year. Group Profit after Tax increased by 17% to Rs. 593.1 mn. Net interest income grew by 38% while non-fund based income increased by 34% over the previous year. Even in the backdrop of a slowing down of the Sri Lankan banking industry, your Bank managed to grow its business volumes at above the industry growth rates, thus signifying an increase in its market share. Loans and advances and deposits grew by 16% and 19% respectively. Due to the heavy investments made in the initiatives identified in the Strategic Plan and the inflationary pressures, Cost to Income ratio witnessed only a marginal improvement from 69% to 68%. More information on

the performance of the Bank is given in the CEO's Review, Management Discussion & Analysis and in the Financial Statements found in this Annual Report.

I am pleased to announce that your Board of Directors recommends a first and final dividend of Rs. 1.50 per share for the financial year ended 31st December 2008 and payable on 6 April 2009 subject to the approval of the shareholders at the forthcoming Annual General Meeting. This would entail a dividend payout of Rs. 251.6 mn for 2008 as against a dividend payout of Rs. 167.7 mn in the previous year, which is an increase of 50%.

#### 2008-FIRST YEAR OF OPERATIONS UNDER THE NEW STRATEGIC PLAN

Being the first year of operations under the new 5-year Strategic Plan 2008-2012 that was approved by the Board in December 2007 with a view to embarking on the next phase of growth, 2008 was an eventful year for your Bank. The new Strategic Plan envisaged a number of initiatives relating to brand building, delivery channels, products

“As part of the implementation of our Strategic Plan, a major re-branding and re-positioning exercise was implemented on the underlying theme of ‘Unparalleled and Unprecedented Levels of Convenience’.”

and processes. It also identified the resource requirements of the Bank, over the 5-year period in terms of capital, space, human resources etc. In this regard, I am happy to mention that a majority of the initiatives were implemented and resources were secured during the year as planned.

Our Shareholders have continued to be a tower of strength since the inception of the Bank. The infusion of Rs. 1.048 bn by way of new capital under the first tranche of the novel capital augmentation plan was completed in early 2008. Warrants have been issued for conversion to shares in March 2010 and 2011. We are confident that the Bank’s consistently good performance will ensure a share price that will make these warrants attractive at the time they fall due.

The Bank also purchased the Head Office building in Union Place, while all the processing activities were centralised into a plush new Processing Centre at Kotahena, which has been leased on a long-term basis. These two buildings, together with the

‘Millennium House’ building at Nawam Mawatha will meet the space requirements over the plan period.

As part of the implementation of our Strategic Plan, a major re-branding and re-positioning exercise was implemented on the underlying theme of ‘Unparalleled and Unprecedented Levels of Convenience’. A Bank wide initiative in aligning the Vision, Mission and Values was undertaken as a prelude to the launch of the new brand and logo. Our new Vision, Mission and Values are given on page 2.

Specific initiatives to enhance accessibility included branching out of the Western Province to the Uva and Southern Provinces while filling the perceived gaps in the Western Province. We also opened six Personal Banking Centres at Keells Super outlets, launched an Internet Payment Gateway facility and enhanced accessibility for AMEX Card members through a strategic alliance with Commercial Bank of Ceylon PLC, for the use of their ATM network.

With the relaunch of our flagship membership programme ‘Inner Circle’, we introduced the ‘Bank at Your Doorstep’ facility which provided banking services at the customer’s residence or office. This service is proving to be quite popular and is a very good example of ‘living the brand’.

## CORPORATE GOVERNANCE INITIATIVES

In the milieu of the global financial meltdown, good corporate governance has become the dictum. Complying with the guidelines issued by the Central Bank of Sri Lanka, the Board of your Bank has set up a number of Board subcommittees, the latest being an Integrated Risk Management Committee, which will ensure that Corporate Governance guidelines are strictly adhered to.

## LOOK TO THE FUTURE

Without dwelling on our past laurels, we need to plan and prepare for the future, especially in the context of an extremely challenging year envisaged for 2009.

The outlook of 2009 will depend on a combination of factors such as intensity and duration of the war, length of the global downturn, economic policies of the Government etc. We have taken these economic realities into account and prepared ourselves to brace for any scenario that may unfold. We foresee maintaining liquidity, cost containment, revenue growth and maintaining asset quality to be business imperatives for succeeding under trying and testing conditions envisaged for 2009. We also foresee significant opportunities to expand and capture profitable market share in this environment. We believe, we are well poised to grab these opportunities.

In the backdrop of these developments, retention of a loyal clientele is of added significance. We will continue in our quest to be the epitome of simplicity while providing our valued customers 'unparalleled and unprecedented levels of convenience'. As I stated in my message

last year, the Bank has and will continue to be proactive and re-engineer its products and services while striving to exceed customer expectations.

#### APPRECIATIONS

Since the inception of the Bank, we have recruited, trained and groomed a highly skilled and talented group of employees, whose dedication and untiring efforts have been instrumental in delivering the excellent results we have seen this year. The conditions they had to operate in were, to say the least, extremely testing. On behalf of the Board of Directors, I wish to convey our appreciation to the team led by the CEO/Director Mr. Zulfiqar Zavahir for their commitment and performance during the year under review.

My sincere appreciation also goes out to my fellow Directors for their unstinted co-operation and support over the year. They have been an immense source of strength to me during the year.

The loyalty of our customers has been very encouraging despite intense competition. This has helped us maintain a competitive edge and gain business and market share outperforming our more established peers over the year. I thank them for the confidence they continue to place in us.

I take this opportunity to thank the Governor of the Central Bank of Sri Lanka and his officials, for their guidance and continued support during 2008. Special gratitude is extended towards our auditors M/s. Ernst & Young for the level of professionalism exhibited while conducting the year-end audit. Finally, I would like to thank all the stakeholders for the trust and confidence they continue to place in our Bank.



**Ajit Gunewardene**  
*Chairman*

17th February 2009

A large, dashed white outline of the island of Sri Lanka is centered on a solid blue background. The outline is composed of short, evenly spaced dashes.

# Opening up new territories

Nations Trust Bank opened branches at Nawala, Matara, Galle, Thalawathugoda and Bandarawela in the year under review. We intend to expand our coverage further in the years to come.





**“As we close the year 2008, the Bank remains in a strong financial position with all its business divisions performing well, a favourable funding position and comfortable capital adequacy ratios.”**

It is with an enduring sense of satisfaction and accomplishment that I present to you the Chief Executive Officer's Report for 2008, reflecting on the continued strong performance during what was clearly the most challenging year for the Bank, in its relatively short but eventful decade-long history.

2008 saw the start of your Bank's next phase of growth with the implementation of our Strategic Plan 2008-2012. The Bank made a substantial investment to lay down the required infrastructural foundation for a quantum leap and implement several new initiatives during the first half of 2008. The second half of the year however, saw global economic turmoil, severe liquidity constraints with several large global institutions with household names in the financial services industry facing bankruptcy and requiring Government bailouts. In Sri Lanka, increasing interest rates, high inflation and the lowest growth in the Banking sector we have seen in years, all combined to produce economic conditions, which were probably the most difficult during the Bank's brief history.



As the saying goes true mettle comes out at times of adversity. Validating our strategy and focus, the Bank's talented and able team was successfully able to navigate these challenging times, to emerge a winner and deliver a strong overall performance.

## FINANCIAL PERFORMANCE

Group Profit after Tax for the year amounted to Rs. 593.1 mn, an increase of Rs. 88.3 mn or 17% over 2007. Bank's Profit after Tax for 2008 is lower than that reported for 2007 due to the dividends received from the subsidiaries being Rs. 38 mn only as against Rs. 186 mn received in 2007. The underlying net income of the Group increased to Rs. 4,692.5 mn, reflecting a pleasing 36% growth, while operating expenses (including provisions) increased by 41%. Apart from the inflationary pressures, the increase in operating expenses was to a great extent in line with our projections, which took into account the cost of the initiatives implemented during the year to provide the level of convenience contemplated in our Unique Service Proposition of '**unparalleled and unprecedented levels of convenience**'. As a result, the Cost to Income ratio

improved only marginally from 69% in 2007 to 68% in 2008. We are confident that we will see significant improvement in this key ratio, as we begin to reap the benefits of the costs already incurred, in the next few years.

Net interest income too grew by a gratifying 38% on higher business volumes and improved margins in the backdrop of rising interest rates and liquidity constraints in the market.

Non-fund based income grew by a satisfying 34%, main contributory factors being a 51% growth in foreign exchange income from increased trade/forex volumes and active market participation and a 37% increase in Other Operating Income from growth in our American Express Credit Cards business and the continued growth in business volumes across the Bank.

The Banking industry was not immune to the effects of the market turmoil and economic slow down experienced during the year. Credit quality continued to suffer resulting in increased credit losses and

higher Non-Performing Assets (NPA) ratios across the Banking industry. Gross NPA ratio of the Bank deteriorated to 5.98% as at 31st December 2008 from 4.96% a year before but compares well against an industry average of 6.2%. Provisions for credit losses too increased by 117% to Rs. 470.9 mn, contributed to by the repayment difficulties faced by some segments in our consumer assets portfolio of Credit Cards and Loans and to prudential provisions made on account of several corporate customer exposures over and above the provisioning policy of the Bank, which is more stringent than the guidelines of the Central Bank of Sri Lanka.

As mentioned before, we saw the lowest growth in the Banking industry in years. Deposits grew by a mere 7.5% while Loans grew by only 6 %. The high interest rates that prevailed throughout the year also resulted in a significant shift from current/savings accounts to higher yielding deposits during the year. Your Bank however, was able to outperform the industry. Deposits grew by 19% signifying an increase in market share, with the low cost current/savings deposits

growing relatively slower (though faster than industry) than term deposits. Loans and advances grew by an encouraging 16% during the year with the SME and Consumer portfolios increasing relatively faster than the Corporate portfolio.

Return on Assets and Return on Equity were 0.96% and 16.45% for 2008 in comparison to 0.98% and 17.62% respectively for the previous year.

The performance of our subsidiaries, Waddock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited too exceeded our expectations. Mercantile Leasing (Financial Services) Limited (MLFS) continued to scale down its operating leases business and made an operating loss in the year. It is likely that the Company will be wound up during the year 2009.

During the year, our ranking in the LMD Top 50 improved to 31 from 40 in 2007, rising by an impressive 9 places. You will be pleased to note that we have moved from 50th position in 2006 to 31st position in 2008, an upward movement of 19 places in two years. Of the Business Today Top 10 rankings we ranked No. 2 in turnover growth and No. 8 in profit growth for 2007/08.

A detailed review of performance of the Bank during the year is given in the section on Management Discussion and Analysis.

## INITIATIVES IMPLEMENTED

The preliminary steps in the implementation of the Strategic Plan 2008-2012 envisaged a re-branding and re-positioning of the Bank, with a view to developing a long-term strategy to propel the brand and would emphasise the Bank's commitment in 'making life simple'. This started off with a presentation to all staff on the strategies and way forward, followed by the unveiling of the new corporate brand identity and a logo. The new identity represents the core values of flexibility, simplicity, of being responsive and innovative - all of which are values

espoused by the Bank in delivering a higher level of service to our customers. The new logo is a dynamic and living mark, almost a physical reminder of how the Bank can touch the lives of its customers in a genuine, meaningful manner.

The Senior Management team also brainstormed to re-articulate the Vision, Mission and Values to align them with the strategy and the unique selling proposition of simplicity. Our ongoing training continues to reinforce this, so that all staff actively practice the Bank's Values while working towards the achievement of the Mission and Vision of the Bank.

Work also commenced at reviewing products and services, service standards, processes and documentation used in customer interactions with a view to simplifying them with the objective of providing greater customer convenience. These initiatives are ongoing with phased implementation as and when they are completed.

Some of the important customer centric initiatives implemented for making life simple for them included:

- Opening of five fully-fledged branches in Nawala, Matara, Galle, Thalawathugoda and Bandarawela increasing the branch network to 36.
- Opening of six Personal Banking Centres at Keells Super outlets at Kandana, Kurunegala, Mount Lavinia, Negombo, Piliyandala and Wattala.
- Refurbishing/relocating of 10 branches with a new look and feel for greater customer convenience.
- Increasing the number of ATMs to 47 from 38 an year ago, with new ATMs accepting cash and crediting customer accounts on an on-line real-time basis.
- Opening a new SME Banking Centre at the 'Millennium House' building.
- Re-location of the Private Banking Centre in a more spacious and convenient location in Colombo 7.

- Setting up of a fully-fledged Contact Centre for both inbound and outbound services.
- Launching an Internet Payment Gateway facility for the benefit of merchants and customers to receive and make payments using American Express Credit Cards.
- Widening the Automatic Bill Settlement (ABS) facility, a unique and convenient payment service for American Express cardholders under which payments of monthly recurring bills for telephone, water, insurance and other service providers can be arranged.
- Partnering with Commercial Bank of Ceylon PLC to enhance accessibility for American Express card members enabling them to access their accounts, withdraw money and check balances from more than 300 Commercial Bank ATMs.
- Restructuring business into three focused and independent business units viz. Consumer, SME and Corporate/ Wholesale/Treasury, so that a holistic approach could be applied when dealing with different customer segments.
- Further centralising all the processing activities by bringing them under one roof by moving the processing departments into a modern spacious brand new Processing Centre in Colombo 15.
- Re-launching the flagship membership programme 'Inner Circle' with the 'Bank At Your Doorstep' facility.
- Introducing a new product 'Forex Trader', that helped the Bank mobilise significant amounts of foreign currency deposits, enhance Forex profitability and build customer loyalty.
- Increasing customer facing staff in branches by deploying 'floor walkers' to assist clients who visit the Bank branches to fulfill their banking requirements in an efficient and effective manner.
- Setting up a fully-equipped Staff Learning Centre to conduct training programmes for the staff.

We are delighted that the impact of these initiatives are being noticed by our customers who are very positive about the convenience they provide and improvements in our service standards. The knowledge we gather from the customer experiences and interactions in turn help us create new and better products and services that are attractive and meaningful to them.

We laid the base for further growth in 2009 with the signing of an agreement with the National Carrier, SriLankan Airlines for the issuance of the co-branded American Express SriLankan Airlines Platinum Credit Card. The card was launched in the first week of January 2009. We also signed up Kumar Sangakkara as our brand ambassador who epitomises the values of Nations Trust Bank; that of youth, talent and capability. He will be the driving force of our Consumer Banking advertising campaign in 2009 and beyond. I am sure that these two initiatives will contribute to an even better 2009.

## STABILITY

Capital Adequacy being one of the important indicators of stability of a bank, we always attempt to maintain a ratio of not less than 12% at all times at the Tier I & II level against the statutory minimum of 10%. During the year, the shareholders infused Rs. 1.048 bn in equity capital under the first tranche of the Capital Augmentation Plan. The Bank also mobilised Rs. 1.000 bn by way of issuing unsecured, subordinated, redeemable debentures during the year, which were subsequently listed on the Colombo Stock Exchange. These funds helped the Bank to maintain the Tier I and Tier I & II Capital Adequacy Ratios at 10.31% and 15.70% respectively as at 31st December 2008.

In addition, the Bank supplemented its deposits mobilisation efforts with long-term funding secured from multilateral funding agencies. All these agencies have reaffirmed their commitment to the Bank to continue with their facilities and to also consider increases in 2009, a reflection of their confidence in the stability of the Bank.

Upon completion of their annual review, Fitch Ratings Lanka Limited reaffirmed the A (lka) rating assigned to the Bank during the year, which denotes a strong credit risk relative to other issuers or issues in the country.

## FUTURE

The Sri Lankan economy is yet to experience the full impact of the global economic slow down. We expect 2009 to be a difficult year. Credit growth is likely to moderate further and credit quality may continue to deteriorate. In this environment, the Bank recognises the need to be prudent and the importance of strengthening Risk Management capabilities while maintaining a strong capital base and high levels of liquidity. We are optimistic that we have the people and the processes required to weather the storm and navigate the Bank into calmer waters, which will set the stage for sustained growth in future years.

As we close the year 2008, the Bank remains in a strong financial position with all its business divisions performing well, a favourable funding position and comfortable capital adequacy ratios. Every single day, we remain focused on growing Nations Trust Bank in size and stature. We are all very optimistic about its future. The challenges of last year and your Bank's ability to stand apart are a testament to the talent and enthusiasm of Team Nations Trust.

## APPRECIATIONS

The ability to deliver the strong performance we have seen over the past financial year across the Group would not have been possible without the commitment of the highly skilled and competent management and staff who are passionate about the pursuit of customer convenience and delivering outstanding service. I am very grateful for the high level of support I have received across the organisation and continue to be enormously impressed with their dedication and capability. It is a great privilege to lead this organisation and I am confident that we can continue to deliver to all our stakeholders well beyond their expectations in the coming years.

I also thank the Chairman and Board of Directors for their continued advice, wise counsel and unwavering support to the endeavours of management.

My appreciation goes to the Governor of the Central Bank of Sri Lanka and his officers for their guidance and co-operation at all times.

I also thank M/s Ernst & Young, our external auditors for their professional and ethical conduct of the audit and for ensuring that the timelines was met so that we could publish this Report and have the Annual General Meeting early.

## CONCLUSION

We are pleased with the performance of the Group across all areas, although there is no limit for improvement in the pursuit of providing unparalleled and unprecedented levels of convenience. We have already made elaborate arrangements to improve customer convenience, operational efficiencies and productivity further during 2009.

The headwinds, which impacted the economic performance in 2008, are likely to continue in 2009. I believe that these will present us with both challenges and opportunities. However, with the outlook for global financial markets being uncertain and economic growth expected to slow down, we will continue to remain cautious but focused on our strategic imperatives. We will ensure that we remain well capitalised and funded, thereby ensuring that we balance these short-term challenges with the need to continue to invest, in creating long-term value for our shareholders.



**Zulfiqar Zavahir**

*Director/Chief Executive Officer*

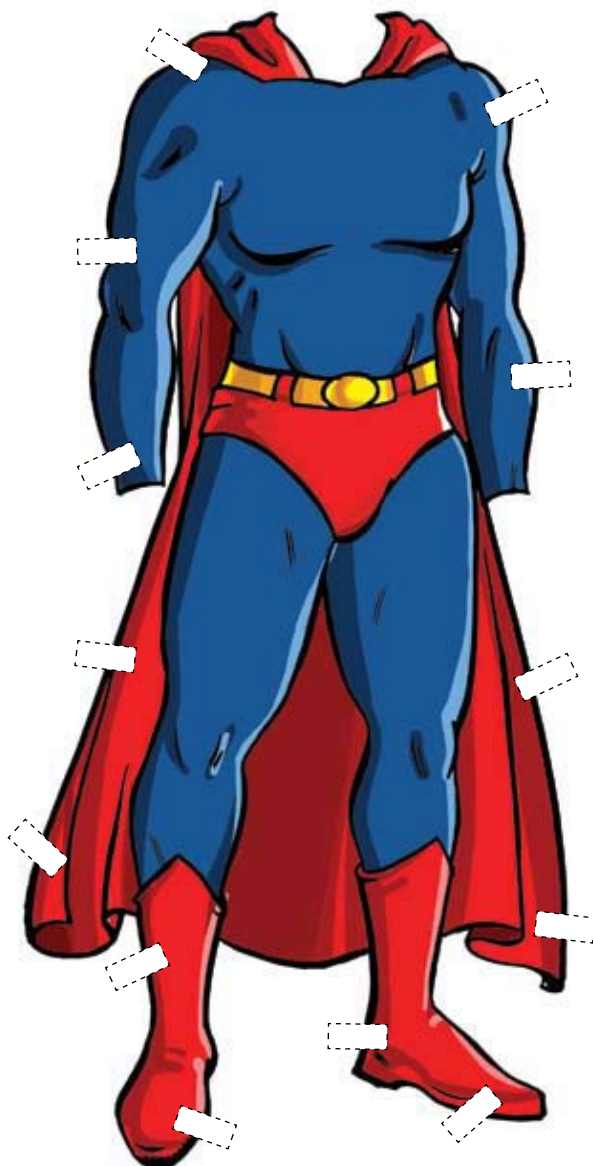
17th February 2009



# Faster than a speeding bullet

It's a bird, it's a plane... no, it's a bill payment, winging its way to your merchant or service provider via Nations Trust Bank's automated, online payment gateway. It almost makes paying bills a pleasure. Almost.





# Management Discussion & Analysis

In 2008, we executed a strategy to emerge stronger as a key player in the Sri Lankan banking industry and position ourselves strongly for the future. During the year, we also moved into a state-of-the-art processing centre, to drive for major improvement in our productivity and build operational capacity. Everything we have done since is entirely consistent with this strategy and we have delivered in each element. By being fast on our feet and by using our in-depth knowledge of the markets and customer segments in which we operate, we have been able to take advantage of opportunities and face challenges that came our way during the year.

**"OUR GROWTH STRATEGY WAS FOCUSED ON SELECTIVE ACQUISITIONS AND GROWING OUR POSITION IN THE MARKET, BUILDING ON STRENGTHS OF OUR CORE BUSINESSES AND CONSOLIDATING ON OUR CORPORATE IDENTITY"**

## Ten years of Milestones unfold...

### 1999

- Acquired the business of the Colombo branch of Overseas Trust Bank and started operations.
- Initial public offering was announced.
- Implemented Flexcube Core Banking System.

### 2000

- Launched Electronic channels such as ATMs, Internet Banking & Phone Banking.
- Colpetty, Sri Sangaraja Mawatha and Kandy main branches and Kohuwala, Wattala, Mt. Lavinia, Nugegoda & Liberty Plaza mini branches were opened.

### 2001

- Launch of Every day Banking.
- Wellawatte branch and Negombo mini branch were opened.

### 2002

- Acquisition of Waldock Mackenzie Ltd.
- Acquisition of the Kandy branch of Standard Chartered Grindlays Bank.
- Acquisition of American Express Colombo branch and the Foreign Exchange Services.
- Acquisition of Deutsche Bank personal banking portfolio.

- Pettah, Mahabage, Battaramulla, Cinnamon Gardens and Kurunegala branches were opened.

**"Journey of a thousand miles begins with the first step..."**

### 2003

- American Express credit card was launched and we became the sole American Express credit card franchisee in the country.
- Main branches were opened in Maharagama and Moratuwa and a mini branch in Borella.
- IFC renounced part of their entitlement of rights in favour of staff and the balance sold in the market.

### 2004

- AMEX blue card was launched.
- Inner Circle - Privilege membership banking was introduced.
- ADB granted a trade finance facility for USD 5 mn. We were the first Sri Lankan bank to be granted such a facility.
- FMO granted the Bank a EURO 5 mn subordinated loan.
- Panadura, Gampaha, Kiribathgoda, Kotahena and Odel (Inner Circle Centre) branches were opened.

## 2005

- Nations Trust Bank was announced as the 'Winning Partner' out of an international field of 20 partners by American Express Global network services.
- Branches were opened in Kadawatha, Dehiwala and Crescat.

“What is important is to dare to dream big, and then take action to make it come true”

## 2006

- Merger with Mercantile Leasing Ltd.
- Bank's Fitch Rating was upgraded to A(lka).
- Inner Circle brand won the 'New Entrant of the Year' award at the SLIM brand excellence award ceremony.
- We were ranked within the LMD top 50.

## 2007

- AMEX Internet payment gateway launched.
- Mercantile Insurance Brokers was rebranded as Nations Insurance Brokers.
- Bank won the FMO ALM competition held in Amsterdam.
- LMD ranking improved to 40.

## 2008

- Re-branding exercise was initiated to represent the core values of Simplicity, Flexibility and Innovativeness.
- 'Bank At Your Door Step' concept was introduced with the Inner Circle re-launch.
- Centralised all processing departments in a modern spacious Processing Centre in Kotahena.
- Personal Banking Centres were opened to provide convenient service.
- An innovative rights issue of shares was made with two tranches of warrants attached to it.
- Nawala, Galle, Matara, Thalawatugoda and Bandarawela branches were opened.
- LMD ranking improved to 31.

“We know the price of success: dedication, hard work and an unremitting devotion to the things you want to see happen”

## A NEW DIRECTION FOR THE BANK

From 2003-2007, the Bank was guided by a strategy mapped out by the Boston Consultancy Group. The strategy was targeted at achieving disproportionately high returns through differentiation and adopting a business model focusing on specific profit pools with aggressive sales culture and customer service orientation. Despite the banking landscape being challenging, the Bank posted impressive results during this period and progressed into a robust, diversified financial Group, growing in repute in the Sri Lankan banking industry.

During 2007, it was thought timely that we review our strategy and lay down a road-map for the Bank for the next five years. It was also felt that a comprehensive Strategic Plan to support an aggressive growth agenda be formulated for the Bank which would form the basis of a request for additional capital needed to sustain further growth. During the latter part of 2007 the Management of the Bank, with the guidance of the Board, deliberated on the business model, the strategies to be followed and the resource requirements in relation thereto. These deliberations revolved around identifying and agreeing on a Unique Service Proposition, customer and geographic segments to serve, distribution channels required, range of products and services to be offered, customer management, service standards, process efficiencies, risk management capabilities and building the Nations Trust brand.

## A NEW STRATEGY REVOLVING AROUND PROVIDING 'UNPARALLELED AND UNPRECEDENTED LEVELS OF CONVENIENCE TO THE CUSTOMERS'

Having carefully analysed and deliberated on the strategies and the performance of the competitors over the past several years and also taking into account the improvements that needed to be effected, the Management decided to revolve the new strategy around 'providing unparalleled and unprecedented levels of convenience' as the Unique Service Proposition (USP) to gain competitive advantage. Numerous new initiatives were identified to be rolled out during 2008 in order to ensure the provision of the contemplated level of convenience to the customers. A strategic plan was developed incorporating the new initiatives, infrastructural and other resource requirements such as capital and human resources.

Year 2008 was the first year of operations under the new Strategic Plan which saw the laying down of the required infrastructural foundation and strengthening of capabilities during the early part of the year. The identified new initiatives were fully operational in the second half of the year.

Consequent to the development of the new Strategic Plan, the Bank adopted a new Vision, Mission and Value Statement which articulates and exemplifies the commitment of the Bank to the USP.

## A NEW LOGO AND IDENTITY

A new brand identity was unveiled in July 2008 following a Brand Audit project with Brand Finance Lanka (Pvt) Ltd. The goal was to develop a long-term strategy to propel the brand towards leveraging maximum value within the market that would reiterate the Bank's commitment to 'making life simple' and complementing the new strategic USP. The new identity represents the core values of flexibility, simplicity, of being responsive and innovative - all of which are values espoused by the Bank in delivering a higher level of service to customers.

**"THE NATIONS TRUST  
BANK BRAND MARK IS OF  
CENTRAL IMPORTANCE  
TO OUR IDENTITY. IT IS  
THE PRINCIPAL MEANS WE  
HAVE TO COMMUNICATE  
OUR BRAND NAME,  
PERSONALITY AND VALUES.  
WE PRESENT A NEW  
STANCE AND A HEIGHTENED  
LEVEL IN DELIVERING A  
DIFFERENTIATED SOLUTION  
THAT IS INDELIBLY  
INTERTWINED WITH THE  
CORE ESSENCE AND VALUES  
OF THE BRAND."**

The new logo 'the simplicity mark' further symbolises this process of engagement as it proceeds with asymmetrical motion towards its conclusion. In its non-linearity, it is a dynamic and living mark, almost a physical reminder of how the Bank can touch the lives of our customers in a genuine, meaningful, manner.



## THE TRANSITION OF THE BANK LOGO...



## FROM VISION STATEMENT TO KPIs

VISION	Inspires our MISSION	Guides our OBJECTIVES	Achieved by by fulfilling CRITICAL SUCCESS FACTORS (CSFs)	Measured by using KEY PERFORMANCE INDICATORS
What is our overriding purpose for existence	How do we relate to our purpose	What do we want to achieve	What do we need to get right to achieve our objectives	How do we know we are delivering on the CSFs
<b>Make life simple by being the benchmark of convenience</b>	<b>Be innovative in continuously developing customer centric solutions</b>  <b>Unleash the talent of our team to be the best in the industry</b>  <b>Consistently grow market share and be the most profitable Sri Lankan Bank by 2015</b>	<ul style="list-style-type: none"> <li>• Total shareholder return</li> <li>• Be the benchmark of convenience</li> <li>• Superior customer service</li> <li>• Enhance talent management</li> <li>• Be a preferred employer</li> </ul>	<ul style="list-style-type: none"> <li>• Maximise the potential in core business areas through enhanced service quality, creative marketing, innovative pricing and cost efficiency</li> <li>• Create loyal long-term partnerships with customers</li> <li>• Effective risk management</li> <li>• Employee Empowerment</li> </ul>	<ul style="list-style-type: none"> <li>• ROE</li> <li>• Revenue growth</li> <li>• Cost: Income ratio</li> <li>• NPL ratio</li> <li>• Employee retention</li> <li>• Credit rating</li> <li>• Brand value</li> </ul>

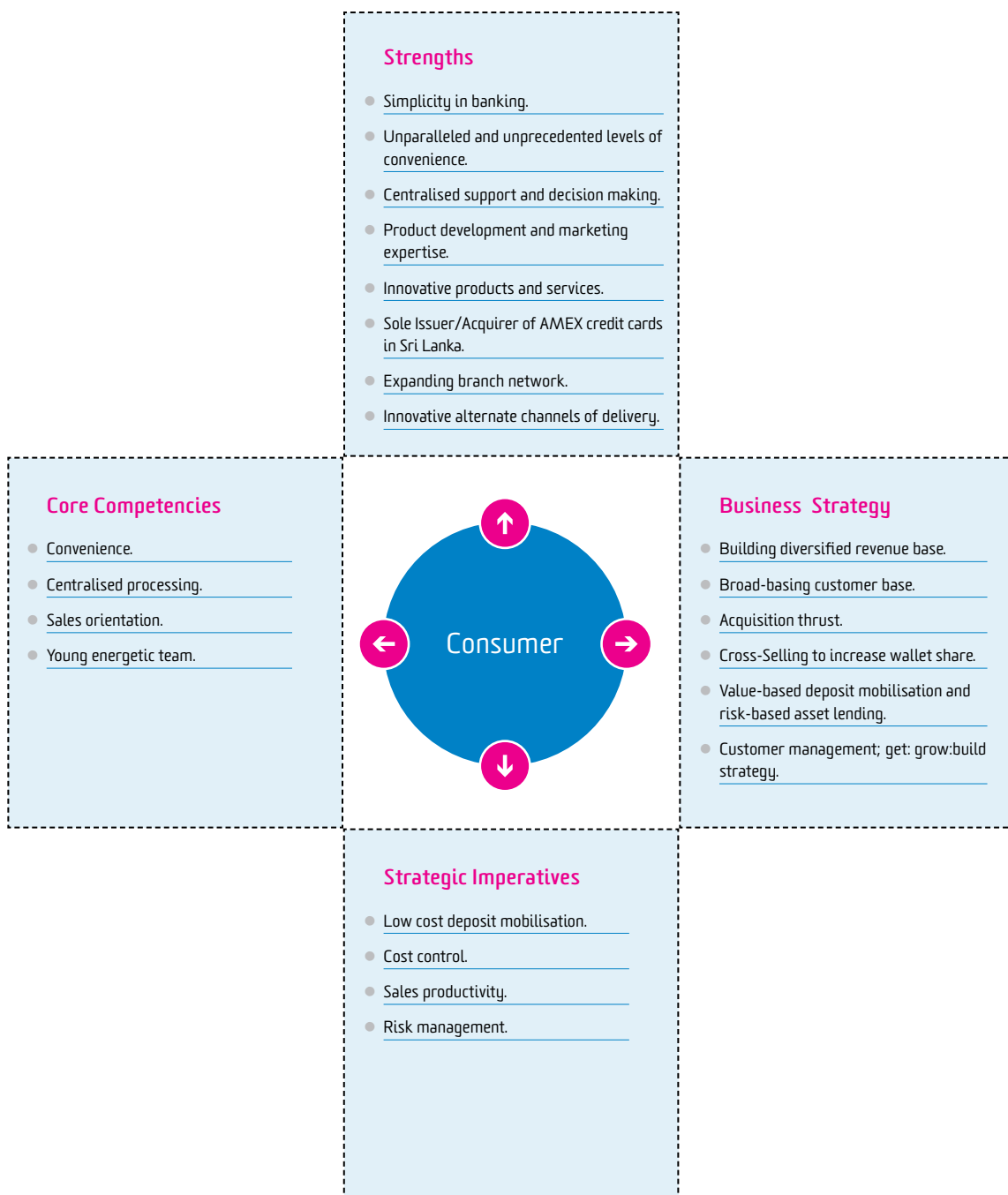
CUSTOMER PROFILING AND ORGANISATIONAL RESTRUCTURE

Customer segmentation is a key focus area in the new strategy and plays a pivotal role in providing ‘Unparalleled and Unprecedented Levels of Convenience’ to gain competitive advantage. The provision of the contemplated level of convenience requires multiple channels, a range of products and services, benchmarked service

standards and streamlined processes to the target market through a differentiated value proposition. All dimensions of the business strategy were aligned to customer segments with the organisation structure aligning under three core pillars of **Consumer Banking, Corporate/ Wholesale/Treasury & Investment Banking and SME Banking.**

CONSUMER BANKING	CORPORATE/WHOLESALE/ TREASURY & INVESTMENT BANKING	SME BANKING
<ul style="list-style-type: none"><li>• Consumer Liabilities</li><li>• Consumer Assets</li><li>• Credit Cards</li><li>• Branches</li><li>• Personal Banking Centres</li><li>• Alternate Delivery Channels</li><li>• Contact Centre</li></ul>	<ul style="list-style-type: none"><li>• Corporate Banking</li><li>• Wholesale Banking</li><li>• Institutional Banking</li><li>• Transactional Banking</li><li>• Fixed Income Securities</li><li>• Treasury</li><li>• Margin Trading</li></ul>	<ul style="list-style-type: none"><li>• Leasing</li><li>• Factoring</li><li>• Business Banking</li><li>• SME Lending</li></ul>

## ● CONSUMER BANKING



## CONSUMER BANKING

2008 was a year filled with exciting challenges in almost all spheres of activity under the umbrella of consumer banking. Consumer banking products and services are provided to individual customers comprising mass affluent, salaried professional and high net worth individuals. A critical element of the Consumer Banking strategy is to build more diversified revenue base and in 2008, great progress has been made towards this goal.

### CONSUMER BANKING - HIGHLIGHTS

- Growth in total deposit base of 32% against industry average of 7% with low cost savings growing by 13% against an industry growth of 9%
- Successful customer segmentation exercise
- Signing of co-branded Platinum credit card agreement with SriLankan Airlines
- Establishing AMEX Value Proposition ('TO USE')
- Opening of 5 new branches, 6 Personal Banking Centres and refurbishing of 10 existing branches

## Consumer Liabilities

**"OUR CLUSTER OF BUSINESSES AIMS TO BUILD BROADER AND DEEPER RELATIONSHIPS WITH CUSTOMERS. WE OFFER A RANGE OF INTEGRATED PRODUCTS AND SERVICES. OUR CUSTOMERS ARE SERVED THROUGH A VARIETY OF CHANNELS COMPRISING THE BRANCH NETWORK, ATMs, TELEPHONE BANKING, ONLINE BANKING AND RELATIONSHIP MANAGERS"**

Consumer liabilities contribute to 61% of the total deposit portfolio of the Bank with a healthy low cost deposit mix. In a year, where there has been a slow down in the industry in deposit growth and further challenged by the price-war for deposits consumer liabilities performed extremely well recording a 32% growth in deposit base.

A revived focus on the Inner Circle product offering has been the hallmark of development in the consumer liabilities

business in 2008. Inner Circle offers priority banking services managed by Inner Circle ambassadors through exclusive counters at the branches. In keeping with the revamped corporate brand image and the aim to offer simplicity in banking solutions, the Bank re-launched Inner Circle with several key value additions to the service such as Lifestyle Banking, Relationship Management and the most significant service being the unique '*Bank At Your Doorstep*' facility.

Captivatingly titled '*Introducing the World of Red Carpet Banking*' the campaign offered the Bank's Inner Circle members an opportunity to be recognised and rewarded through superior service and unique banking solutions that are tailored around the busy schedules of the customers. The dynamic value addition *Bank At Your Doorstep* (BAYD) offered exclusively to Inner Circle members, promises to offer levels of convenience and flexibility yet to be seen in the current financial services market. The customer uptake on BAYD has been encouraging.

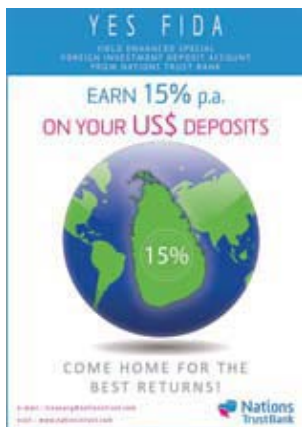




## Product Innovations

**"AT NATIONS TRUST BANK WE HAVE ALWAYS PRIDED OURSELVES ON OUR BANKING INITIATIVES AND OUR INNOVATIVE PRODUCTS"**

Nations Trust Bank formally launched the Foreign Exchange Trading Accounts 'FX Trader' to their customers in 2008, becoming the first bank in the industry to offer such a product. This product was a direct outcome from the insights provided by the customers who displayed great enthusiasm and prepared to take calculated risks. The Bank operates the FX trading portfolio as discretionary and non-discretionary portfolios. In the case of discretionary portfolio, the customer gives the Bank absolute discretion in managing the portfolio by providing the Bank with a full indemnity, with the maximum capital erosion the client incurring being limited to 10% of the investment. The non-discretionary portfolio is operated with the concurrence of the customer, whereby Treasury monitors the exchange rate and informs and advises clients on the likely movements and appropriate currency conversion strategy, with the transaction being executed with the consent of the client. The product was a huge success in 2008 and helped the Bank to mobilise significant amounts of foreign currency deposits and enhance customer loyalty.



The Enhanced Yield Special Foreign Investment Fixed Deposit 'YESFIDA' was launched during the year. This product pays an 'enhanced yield' at maturity depending on the exchange rate movement of the USD/LKR currency pair on the investment date when compared with that on maturity date of deposit. This account allows investors to earn an enhanced return on USD Term Deposits, which is dependent on the rate movement of the USD/LKR currency pair.

## Personal Loans

The Bank has been attuned to the particular challenges that the market posed during the year for consumer asset growth since the debt servicing capacity of borrowers in general was strained by high inflation and borrowing cost, and the saving capacity of the people greatly reduced due to inflation and the resultant high cost of living.

Business volumes grew steadily. However, there was a fall in product margins as a result of intense price competition particularly in premium segments. The provision of bundled loan products which was a new area of focus for the Bank saw a range of new offerings being targeted at selective customer segments. The sales teams made significant contribution in building the consumer assets portfolio amidst the market challenges and tightening of internal credit policy during the year.

## Credit Cards

The Bank's card business continued to strengthen its strategic position, making a significant contribution to profits. The number of credit cards in force recorded an increase of 16% during the year. The business continued to develop rapidly. Outstanding card balances grew by 24% supporting revenue growth.

Enhancements in product offering and continued improvements in processing capacity enabled a strong performance in credit cards with the overall return remaining attractive and market share on outstandings increasing to 13%.

Strategic investments were made in building an AMEX credit card value proposition in 2008 styled 'TO USE' covering specific everyday categories of spend.

### Travel



### Oil



### Supermarket



### Entertainment/Dining



### Utility



The business also increased the number of merchants accepting the card significantly and is expected to move towards parity coverage in terms of Point of Sale terminals of the other card acquirers in the market in 2009.

The co-branded Platinum credit card agreement with SriLankan Airlines was signed in 2008 and the issuance of the card commenced in January 2009. With this, the Bank offers the full spectrum of products under AMEX umbrella.



The Bank widened the Automatic Bill Settlement (ABS) facility, a unique and convenient payment service for American Express cardholders under which payments of monthly recurring bills for telephone, water, insurance and other service providers can be arranged. Customers are given a consolidated summary of all the bills charged to their American Express Cards in a monthly statement. The total volumes processed for the year 2008 recorded a 70% growth compared to last year. AMEX is the only card which provides this facility for all utilities.

## Branch Network

**"WE ARE CONSIDERED TO BE ONE OF THE MOST CUSTOMER CENTRIC FINANCIAL INSTITUTIONS TODAY, WHICH PROVIDES CUSTOMER CONVENIENCE THROUGH 365-DAY BANKING WITH MORE BRANCHES BEING OPEN FOR EXTENDED HOURS COMPARED TO MOST OTHER BANKS IN THE COUNTRY"**

New branches were opened in a number of locations and investments continued in upgrading and refurbishing of our branches throughout the network. Geographic presence was also strengthened by branching out of the Western Province and opening three new branches in Galle, Matara and Bandarawela. Two branches were also opened in the suburbs of Colombo in Nawala and Thalawathugoda.

The commencement of the re-location/refurbishment programme witnessed Mahabage, Moratuwa, Mt. Lavinia, Wattala, Battaramulla, Nugegoda, Bandarawela, Cinnamon Gardens and the Private Banking Centre being relocated to more spacious and convenient premises and Pettah branch being refurbished. All these branches now offer customers a smart and luxurious environment in which they can undertake their daily banking requirements.



Our consumer banking strategy places great importance in providing greater convenience and flexibility to our customers. As the Bank which pioneered 365-Day Banking, customer need for convenience is well understood and this flexibility and innovation has greatly improved the banking experience of our customers. With each new branch opened and the refurbishment/re-locations of the existing network, we keep raising the bar on customer experience and convenience.

## Personal Banking Centres

Establishment of Personal Banking Centres (PBC), technology driven banking outlets set up in Keells Supermarkets (KS), a popular chain of supermarkets owned by the largest business conglomerate in Sri Lanka and the Bank's main shareholder, John Keells Group was a key initiative in 2008.



Given the Keells Super strategy for aggressive supermarket expansion, and the Bank's own consumer banking strategy which also targets the same mass affluent customer, it was felt imperative that the Bank takes advantage of the synergy that Keells Super can bring. PBCs within

Keells Super outlets were established with a view to capturing customers within the mass affluent segment patronising the supermarket, create brand presence at all Keells Super outlets to bring top of the mind recall for the mass affluent and high networth customers and further enhance convenience to strengthen the service offering.



The operating model of these PBCs revolves around leveraging heavily on technology with ATMs and cash deposit machines installed to bring seamless services and convenience and transactions being automated to a great extent. In accordance with the expansion of the supermarket chain - Keells Super, 6 Personal Banking Centres were opened at Peliyagoda, Mt. Lavinia, Kurunegala, Negombo, Kandana and Wattala.



### ATM network

Nations Trust Bank partnered with Commercial Bank of Ceylon PLC in a bid to enhance accessibility for customer convenience, enabling customers to access their accounts, withdraw money and check balances and for AMEX cardholders to withdraw cash, from more than 300 Commercial Bank ATMs spread across the country in addition to Nations Trust Bank ATMs. During the year, the Bank also made significant improvements to the electronic delivery channels introducing ATMs that accept cash and credit customer accounts on an on-line real-time basis.

### Contact Centre

The Bank launched a fully-fledged Contact Centre for both inbound (account servicing, nerve centre for the Bank At Your Door Step service) and outbound services. The core responsibility of the Centre is to service all inbound calls received to the Banks' customer service hot line numbers within the established service standards for which dedicated teams have been assigned. This comprises of the American Express Cards team to manage and service all card inquiries and the Premium Card services team to service both the Sri Lankan Airlines Platinum Card and Corporate card, Bank and Inner Circle teams to service all banking related inquiries. The outbound team manages all outbound calls to promote products and services, acquisition and cross-sell initiatives of the Bank.



### Brand Ambassador - 'batting' with the Nations Trust Team

Kumar Sangakkara partnered with the Bank becoming the face for Nations Trust Bank's thrust to the future. Being a unique personality, who has a multitude of talents in addition to being a cricketer, the partnership with Kumar signifies the versatility both parties share. The Bank's brand values of innovation, simplicity, flexibility and responsiveness is demonstrated by Kumar all the time, on and off the cricket field. He will be the driving force of our consumer banking advertising campaigns.



### Consumer Credit Risk Management

Consumer credit risk management capabilities were strengthened during the year. The Bank has a co-ordinated approach to all aspects of consumer risk which has been reinforced by the creation from the beginning of 2008 of a Consumer Risk Credit Committee at Corporate Management level responsible for the oversight of consumer risk management.

The Bank has taken the initiative to develop Risk Reward Programmes (RRP) of the 3 major consumer lending products i.e. Credit Cards, Personal Loans and Home Loans. An advanced statistical Score Card for personal loans and credit cards underwriting was developed by Fair Isaac Corporation of the USA which will significantly improve the quality of the accounts acquired. The underwriting policy was further strengthened by tightening the verification

process, increasing the minimum criteria with emphasis on booking only the higher end of the market. The underwriting score card will also enable the Bank to move into behavioural scoring mechanism on the consumer side with relative ease once the volumes become commercially viable as the platform on which the score card is implemented supports behavioural scoring as well.

The Bank obtained the services of Quattro Analytics and Management Services Limited, a Singapore-based company operating from India to review the front-end collections and mid-range collection process in order to ascertain the gaps in the processes and implemented their recommendations based on global best practices.

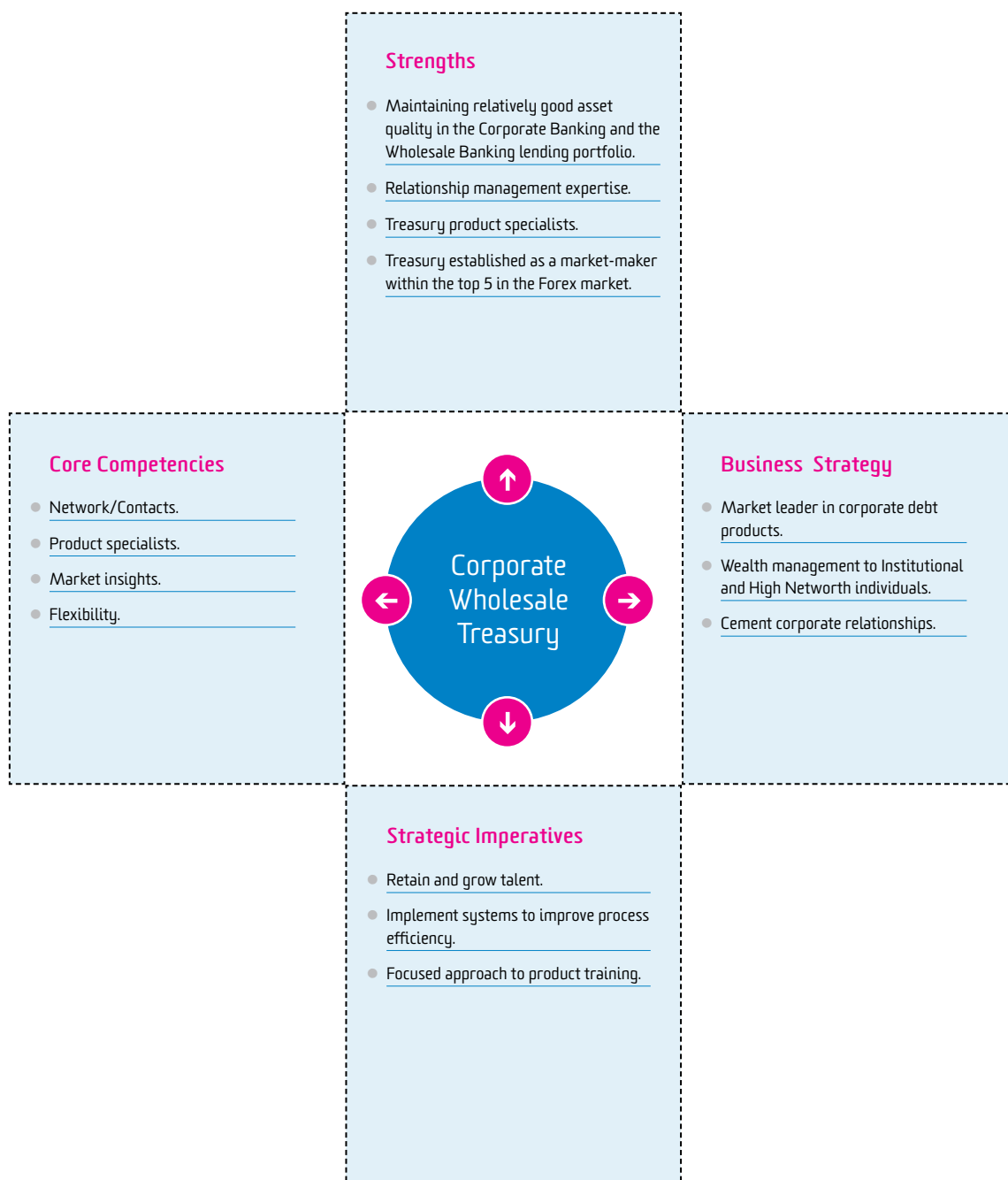
The Bank will continue to place more emphasis on risk management during 2009 with a view to garner only the better quality customers while continuing a robust collections strategy.

## **FUTURE OUTLOOK**

Future for consumer banking looks challenging yet promising. Our priorities are to ensure that we maintain the growth momentum and enhance profit contribution with an improved asset quality and a stable deposit base. Continuous improvement in implementing more streamlined risk management tools and enhanced collection competencies will allow us to win over the challenges faced in consumer lending activities. We will build on our customer segments with a focused approach and strong customer orientation. Our focus will be on offering unprecedented and unparalleled levels of customer convenience. This seems a high standard to set ourselves, but as a part of the service industry and being the young energetic and dynamic Bank that we are, we are confident in being able to usher in an enhanced level of banking services that simplify our customers' lives. The new branches, PBCs and consumer products which were launched this year have proven through their quick success that Nations Trust holds a distinct appeal for the customer segments it markets. This is our strength. We look forward with zest to meeting the inevitable challenges that are ahead in turbulent times.

**"WE ARE TRANSFORMING NATIONS TRUST CONSUMER BANKING TO BE THE BEST IN THE INDUSTRY BY DESIGNING INNOVATIVE, SIMPLE AND TRANSPARENT PROPOSITIONS, STREAMLINING OPERATING PLATFORMS AND FURTHER LEVERAGING ON CROSS-SELL CAPABILITIES"**

## ● CORPORATE - WHOLESALE - TREASURY AND INVESTMENT BANKING





## CORPORATE AND WHOLESALE BANKING

### CORPORATE AND WHOLESALE BANKING - HIGHLIGHTS

- Good quality loan book despite down turn in economy
- Asset timing strategy to maximise revenue
- Application of RORWA to enable rational pricing decisions

The segment of Corporate and Wholesale Banking customers faced a difficult year with the initial period seeing high inflation environment that was accompanied by high interest rates and the year culminating with a near collapse of the global financial system that sent shockwaves around the world, effects of which will reverberate throughout 2009. The high interest rate policy adopted by the Central Bank of Sri Lanka had its desired effect on the local economy with loan growth slowing down to 6% from 19% during the preceding year. With a deteriorating credit environment being exacerbated by the global slowdown, the challenge was to closely manage customer relationships with a view to understanding their issues and being pro-active with solutions, which in the overall context would contribute towards maintaining the quality of the loan portfolio.

Portfolio growth was therefore less of a priority and a strategy to book business aggressively in the early part of the year and consolidate exposures in the latter part brought about good results. Volatile market conditions were accompanied by an increase in risk premiums that contributed to higher spreads and improved net interest income on the portfolio. Growing fee income however proved to be quite difficult in the circumstances with Central Bank policies introduced in the last quarter to curb imports affecting customer business volumes to a significant extent.

We introduced a foreign currency trade financing product to our import and export customers that was well received, enabling them to make considerable savings in finance costs of around 15%. The application of risk-weighted return targets (RORWA) has enabled rational pricing decisions that we will continue to share with our customers.

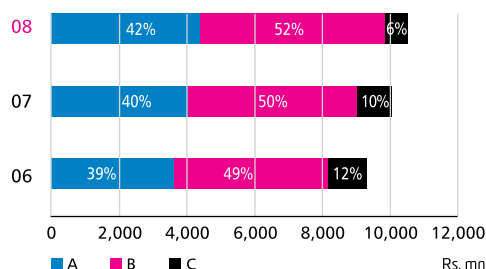
Our much valued customer relationships are the cornerstone of our success and our dedicated team of Relationship Managers are at the forefront of this effort with an offering that is extremely competitive. In 2008 we continued to host our clients to events that were the best in their class.

**"WE BRING TOGETHER A UNIQUE BLEND OF TALENT AND A VERY INSPIRED TEAM THAT HAS ENABLED US TO FASHION CREATIVE SOLUTIONS FOR OUR CORPORATE CLIENTS BOTH AT WORK AND OTHERWISE. OUR PERFORMANCE IS A MANIFESTATION OF THAT WILLINGNESS AND DRIVE TO PROVIDE OUR CUSTOMERS WITH THE BEST"**



The Nations Trust American Express Golf Extravaganza teed off at the Royal Colombo Golf Club in April to a hugely enthusiastic response. The objective of this event was to enhance relationships with Corporate customers, Amex cardholders and prospect for Private Banking clients. The main attraction was the Men's tournament that involved 115 participants, with the Bank's Chairman having the honour off the first tee. Customers who were beginners and interested in golf were invited to get into the swing of the game with expert tips being imparted by a professional in the sport at a special session.

### Loan Portfolio by Risk Grading





Nations Trust Bank Corporate Quiz was organised for the third successive year and the cream of Sri Lanka's corporate sector was entertained to a thrilling audio-visual experience when the event took place in August. Thirty-nine teams drawn from Sri Lanka's corporate elite battled it out to gain supremacy with the theme of the event set on a popular TV series. Based on the theme of 'surviving' the corporate jungle, the event was complete with tribal décor, lights and a blazing flame within a forest setting that added to the excitement of the night.

Each team or tribe in this case that comprised five members, faced a barrage of questions that tested them through five different rounds of questions covering the various topics. The rumble in the jungle commenced with five rounds concluded by a rapid fire buzzer round which elevated the quiz to exciting heights with Amba Research walking away with a Quarter Million Rupees as the prize money. The event was an overwhelming success and constituted an audio visual treat, dance and entertainment acts, with the participants having an enjoyable evening with a number of prizes and surprises in between rounds that complemented the main prizes, followed by cocktails and fellowship.



## TREASURY AND INVESTMENT BANKING

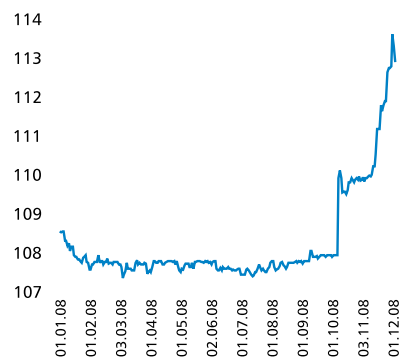
### TREASURY AND INVESTMENT BANKING - HIGHLIGHTS

- Excellent FX result, inter-bank presence enhanced
- Sourced funding from multilateral agencies and securitisations amounting to Rs. 3 bn
- Considered as one of the most active players in the Govt. Securities and corporate debt market

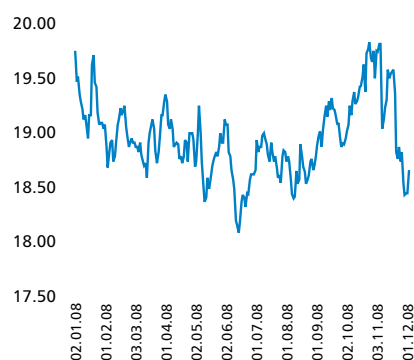
We continued to make bold strides and progress in the arena of Treasury and Investment Banking returning a stellar performance on Foreign Exchange revenues that rose by 51%. This exceptional achievement was recorded on the back of combined customer flows and proprietary trading. Being one of the few active participants in the market, we are committed to maintaining our presence as 'market maker' for the USD/LKR currency pair on spot and forward products in the inter-bank market that allow us to competitively quote for our customer business related to imports, exports and remittances, whilst also being active in the major currency pairs.

A stable exchange rate for most part of the year saw heavy selling of foreign currency to acquire LKR assets. This was reversed in the last months of 2008 due to developments in global financial markets. The Forex Trader product attracted significant volume returning an attractive USD yield of 17% on the portfolio.

### USD/LKR Spot



### Three Months SLIBOR



Although interest rates were at relatively high levels for most of the year, interest rate volatility was rather muted and Fixed Income Trading and Sales activity was limited to the short end of the yield curve. Overnight Indexed Swaps (OIS) of Rs. 13.5 bn that facilitated short-term interest rate risk management were executed during the year. Our group asset portfolio combining fully owned subsidiary Waldock Mackenzie Limited totalled Rs. 18.2 bn at year-end that constituted Government and Corporate securities and is also one of the most active players in the market.



Funding was one of the key activities undertaken and solid relationships were established with our Institutional Clients. Relationships with Development Financial Institutions such as FMO, ADB and IFC were further strengthened during the year that allowed the Bank to access essential medium-term funding. Securitisations of our lease portfolio were also executed to supplement this effort.

Nations Trust together with Netherlands Development Finance Company (FMO) organised a three-day Asset and Liability Management workshop aimed at a target audience consisting key decision makers that include Heads of Treasury and Heads of Finance of leading Corporates, Commercial Banks and senior staff of the Central Bank. Based on the format of a similar style of competition conducted at the Hague in the Netherlands earlier during the year, at which the Nations Trust team emerged overall winners, the workshop dealt with aspects relating to business strategy that flows through to Balance Sheet management which combines market risk, interest rate risk, liquidity risk and foreign exchange risk management. Participants were grouped into different teams that managed their respective 'virtual bank' and take on their competitors in a simulated economy where making the

smart decisions were rewarded and bad decisions punished, very much as in real life. The performance of each team was finally reflected in the 'share price' that was tracked through a number of decisions with each one representing a financial quarter. Participants had an excellent opportunity to sharpen their skills on asset and liability management and understand the impact of risk-reward decisions. The unique combination of the group brought different perspectives of immense value whether corporate customer, banker or regulator and provided an excellent networking opportunity.

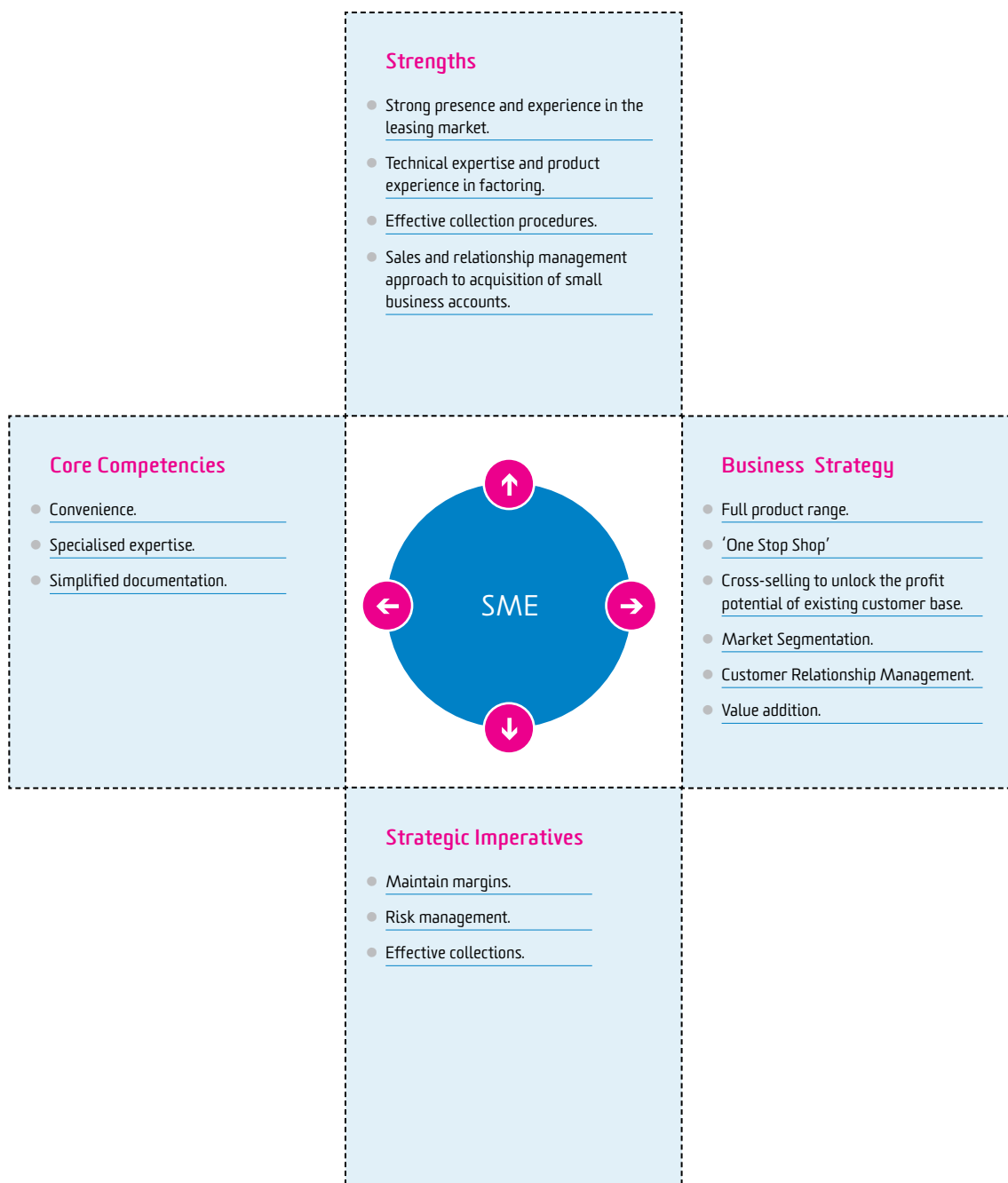
## FUTURE OUTLOOK

The financial turbulence in the international markets and the resultant collapse of some financial institutions weakened financial markets and banks, sharply reducing liquidity. The impact of this turmoil will be felt greatly in year 2009 with many economies under downward pressure on growth. Corporate and Wholesale banking unit will be committed to its tradition of prudence and belief in strong credit risk management to weather adverse conditions in the year ahead. Our focus will be to maintain a well diversified portfolio with sector concentrations at acceptable level whilst building strong customer relationships. On the Treasury and Investment Banking front we shall continue to be in the forefront and strengthen our market position. Key focus will be to foster sound asset and liability management practices whilst ensuring flexibility to capitalise on market opportunities. We look forward to recording yet another landmark performance in the year ahead.



NTB - FMO Asset and Liability Management Simulation October 2008

## ● SME BANKING



## SMALL & MEDIUM ENTERPRISE BANKING

### SME Banking - Highlights

- Acquisition of over 4000 business banking current accounts
- Big business strategy for business banking - converting high potential business accounts
- Good financial results for the unit
- Leasing new business recorded a growth of 15% in the backdrop of a contracting industry
- NPA for leasing below industry average reflecting credit quality and tight recoveries

In 2008, the Business Banking, Leasing, Factors and SME Lending units of the Bank were united in a new cohesive Small and Medium Enterprise (SME) Banking Division, with the objective of creating a holistic customer focused business proposition for the Bank's SME customers. An organisational restructure was undertaken in this respect, rationalising and bringing staff together, and the customer database successfully segregated and rationalised in accordance with the agreed definition for SME customers.

An SME Banking Centre was opened at the 'Millennium House', Navam Mawatha offering SME customers an unrivalled customer service area, dedicated relationship managers and all facilities and products under one roof. These cover the full range of current, savings and fixed deposit accounts, finance leases, hire purchase, loans, overdrafts and trade services. SME relationship managers and sales staff are also based in our branches to serve customers who find the branch network more convenient.

The strategy has been extremely successful with the SME Division accounting for a healthy contribution to the Bank's bottom line.



### Business Banking

The business current account base increased by 4,000 new customers in 2008 and recorded a 12.5% increase in total revenues over the previous year. Non-fund based Income also increased reflecting an increase in transactional banking volumes in these business accounts. Volume growth was supported by the soft launch of 'Nations Business First' initiative, a package of products and facilities for business customers. The customer base was segmented into Silver, Gold and Platinum and a differentiated value proposition offered with attractive benefits and enhanced service. The focus of the unit was re-directed entirely to business accounts (with Consumer Banking targeting individual accounts), thus ensuring less overlaps between the Sales and Marketing units and a more clearly focused acquisition strategy for the Bank.

### Leasing

The leasing business, under the banner of Nations Leasing demonstrated yet another year of strong performance, based on effective marketing and relationship management of a loyal customer base, good quality credit and timely and results-oriented debt collections. New Business volumes marked a 15% increase over 2007

amidst a contracting market and a difficult year, a milestone performance for the leasing team. Our margins were maintained ensuring core income generation as per plan. Against a backdrop of debtor default rates increasing across the industry the NPA ratio increased to 6.7%, however continued to be very commendable reflecting again one of the healthiest leasing portfolios in the industry.

Leasing counters were opened in the new Galle and Matara branches and both have shown good business growth opening up an untapped market in the South for the Bank's leasing business. The Bank consolidated its presence in Bandarawela by converting the leasing branch into a full-service bank branch, a move much appreciated by the long-standing Nations Leasing customers of the town. A leasing counter was also opened in Pettah to better serve the busy and ever-demanding trade sector.



## Factoring

Nations Factors, the second largest factoring provider in the market had an excellent year, with the twin strategies of good quality credit growth and aggressive recoveries of old debt resulting in the business achieving a net interest income growth of 60% over the previous year. The business showed a write back of bad debt provisions for the second year running with NPA ratio dropping to 4.4% compared to 11.6% at the close of 2007. The Bank is confident that with a continued strategy of customer acquisition in selected markets and strong operational processes and cost control, the factoring business will continue to make a healthy contribution to the Bank's bottom line, offering SME customers a borrowing tool well suited to their requirements.

## FUTURE OUTLOOK

In 2009, we will focus on unlocking the profit potential of its existing SME customer base by strong cross-sell approach of our well-proven products; Nations Business First, Nations Leasing and Nations Factors to all our customers. We will offer an attractive service proposition based on simplicity and convenience to our SME customers, with simple documentation and speedy service, a dedicated SME Centre and relationship managers to serve at our Branches. We firmly believe in the importance of the SME sector in a developing economy and we are confident that we can offer a valuable banking proposition to our customers.

### ● E-PROJECTS

#### Alternate Channels

A new department was formed to concentrate on providing convenience to our valuable customers through alternate ways of banking through Internet, Email, ATM, Mobile and our unique Bank At Your Doorstep service.

#### 'Bank At Your Doorstep'

After beta testing in April and May, the facility was formally launched in July 2008 as a value added service to the suite of services provided to the Bank's flagship membership programme, 'Inner Circle'. Transactions are carried out using Enterprise Digital Assistant Devices connected through secured GPRS technology.

This concept is literally as simple as calling the Bank and having the Bank arrive at the customer's doorstep to carry out transactions. Customers can simply call the hot line number and request for a service such as cash withdrawal, cash transfer, delivery etc. Within an hour's time an agent from the Bank arrives at the given location, be it customer's home, restaurant, hotel or office and delivers the required amount. This service cuts the hassle of driving to the ATM or bank, effectively avoiding the queues as well as saving time. This service comes especially handy as it is a fast and most importantly a safe and convenient way to arrange for delivery and collection of cash and other services.



## Internet Payment Gateway

Within a short span of time American Express Internet Payment Gateway has been well established amongst the e-commerce merchants in Sri Lanka. Positioning it as an Online Payment Solutions Provider has helped us to gain the confidence of the merchants and to build closer relationships with them. Consultancy on e-commerce, reliable payment solution, 24X7 monitoring of frauds, marketing opportunities are some of the key benefits offered to the merchants while being a Payment Solution Provider in their business.

Partnering with SriLankan Airlines to accept American Express credit card payments on their internet booking engine was a key milestone achieved during 2008. With this, American Express card members across the world can purchase SriLankan Airlines tickets online conveniently. Many other leading online merchants such as Dialog, Abans, Singer, Lanka Bell, Amaya Resorts and Union Assurance partnered with American Express Online Payment Solution in 2008.



Enabling American Express 0% interest Extended Settlement Plan online with Union Assurance, card members can choose to pay for their insurance with 3 months and 6 months instalments. This is yet another unique online service offered for American Express card members and many more merchants are expected to partner with this programme.

## Fresh look and new features for our website

www.nationstrust.com received a fresh look with the launch of the new logo. All information customers need from the Bank such as interest rates and exchange rates, contact information and product details can be easily found on our website. We are also encouraged by the increasing usage of website and customers registering in large numbers to our online banking service and electronic statements instead of the paper statements thereby contributing to our 'Go Green' campaign.



## SMS Banking

In November 2008, a long overdue face lift was given to SMS Banking to provide further convenience to our customers in deriving banking information. A large number of online registrations were received for this service.

## M-commerce is on the way

We are gearing up to launch a mobile payment solution in early 2009 where our customers would be able to pay using their mobile phone instead of the credit card or cash. Customers will have the choice to make payments from credit cards or mobile phones using their bank account to pay supermarket bills, utility bills or top up their mobile phones.

## ● OPERATIONS

### Processing Centre

**"WE ARE DELIGHTED TO OFFER OUR PROCESS AND OPERATIONS CENTRIC STAFF A SPACIOUS NEW OFFICE AND PLUSH SURROUNDINGS THAT WILL SERVE AS THEIR NEW HOME AWAY FROM HOME."**

Continuing the fast paced stride in enhancing and developing the support services of the Bank, processing activities located all over the city were brought under one roof by moving them into a spacious eight storey plush office located in Kotahena.

The Processing Centre serves as the base for the Bank's operations and process teams constituting of Information Technology, Call Centre, Operations as well as numerous other key back office functions that play a pivotal role in the day to day functioning of the Bank.

The new architect designed office, features a two storey car park, in addition to elegantly designed plush interiors and work stations, several meeting rooms, break out areas for staff as well as a restaurant style canteen. The building offers a picturesque view of the city and has been designed with the intention of providing staff, often working late hours on shift basis, the convenience of a comfortable office environment.





## Head Office Premises

In view of the increasing space requirements arising from the expansion of the Bank, both in terms of the realised growth over the past several years and the projected growth in the Strategic Plan 2008-2012, a building plan was developed and procurement of a suitable Head Office building for the Bank was deliberated with several options being evaluated. Stemming from this evaluation the Bank purchased the land and building at the current Head Office premises at Union Place. Apart from the financial viability where positive returns would be generated in the longer term, other considerations such as rent revisions at periodic intervals having adverse implications on the Income Statement, shifting to new premises from time to time being costly in terms of disruptions to business, refurbishing, re-wiring, re-laying communication lines, transport etc., also justified the purchase. The Head Office building, the new state-of-the-art Processing Centre and the 'Millennium House' building located at Nawam Mawatha will address the space requirements of the Bank over the next 5 years.

## ● INFORMATION TECHNOLOGY

The IT Department is teamed up under Software Development, eChannels, Data Base Administration, IT Infrastructure, Business Solutions and Help Desk. The Bank operates an on-line real-time environment with the branches and ATMs connecting through IPVPN. The core banking system is Flexcube supplied by Oracle Financial Services USA, while the ERP solution is provided by Oracle Corporation USA. The Bank's data centre hot site is a fully operational off-site data processing facility equipped with hardware, systems software, and fall back connectivity. The site is considered as the ultimate in Disaster Recovery preparation, with data replication that is up-to-date, to within minutes, which would reduce the down time to a minimum in the event of a disaster.

The Bank's in-house development team is gearing up to develop and implement a complete Lease Management Solution in 2009. It is also planned to implement a new credit cards system moving away from the outsourced solution that has been in place over the last 5 years.

During the year, the Software Development Team of the Bank was also able to secure the Silver Award in the In-house Applications Category at the National Best Quality Software Awards (NBQSA) competition for the 'Nations i-collect' solution which is used by Central Collections Department to maintain a healthy consumer credit portfolio.



## ASPIRATIONS FOR THE FUTURE

Performance in 2008 has been the embodiment of our true commitment to our strategic plan and a good start to achieving the milestones set for ourselves in the years to come. As the young and energetic player in a sector which has been resilient and weathered many storms in 2008 we embrace the future with all its challenges and opportunities.

Our credentials are excellent; we have the expertise, knowledge, skill and capability in all spheres of banking which have been effectively demonstrated on the good track record we have put up in the past ten years.

We place great importance on our credibility which is all about developing integrity, intent, capabilities and results that make us believe in ourselves.

We have made a commitment to continual learning, growth and improvement in our people and processes which will give us the ability to change, adapt and flex with the changing realities of the environment whilst becoming fundamentally equipped to out perform in our core customer segments.

We shall find greater satisfaction in the exciting journey ahead.

*"With greater confidence in ourselves and our abilities, we will set bigger goals, make bigger plans and commit ourselves to achieving objectives that today you only dream about."*

## ● FINANCIAL REVIEW

### SECTOR OVERVIEW

#### BANKING SECTOR - HIGHLIGHTS 2008

- CBSL adopted a tight monetary policy throughout the year
- Point-to-point inflation remained above 20% during most part of the year thereby adversely impacting the purchasing power, loan repayment capabilities and savings habits of the people
- Interest rates - both Rupee and US\$ - remained high during the second half of the year due to the economic turmoil world over and an acute shortage in Rupee liquidity
- High interest rates on Government Securities impacted the growth in deposits of banks
- Wide gap in interest rates between low cost deposits (current and savings) and term deposits caused a shift from the former to the latter
- Significant slowdown in business volumes in the banking industry
- Cash Reserve Ratio was reduced to 7.75% from 10% in two stages to support market liquidity
- NPLs increased by 27% reflecting the deteriorating credit quality
- Dollar/Rupee exchange rate depreciated by 5% during the year
- Market for Finance Leases contracted due to the increasing prices of brand new motor vehicles and the slow down of economic activities

The Sri Lankan banking sector performed admirably well in what was certainly a tough operating environment. GDP growth in the first half of the year was 6.6% with the services sector being one of the main contributors. Banking services also made a significant contribution to this achievement, although there was a slow down in credit growth, with deposits growth too being sluggish.

Our banking sector has been largely insulated from events in the global financial markets mainly due to our capital account being accessible only for limited equity and debt transactions. International capital flows have been extremely volatile in the present context and perceptions of changes in risk profiles could cause a capital flight with dire consequences to developing economies. What began as a credit crunch in the US has sapped the confidence of the markets worldwide. This has caused an acute liquidity crisis in global markets, with institutions hastening to dispose of various asset portfolios to improve

liquidity. An import dependent economy such as Sri Lanka is exposed to external price changes, especially the volatile fluctuations of international oil prices. Although the outlook appeared to be grim in the early part of the year, the significant drop in oil prices in the second half of the year provided much needed respite and a positive impact to curtailing inflation towards the end of the year.

The high interest rate regime followed by the CBSL with a view to controlling reserve money and inflation reflected in the lowest growth in total deposits in the country for some years, leading to a price war in the market with banks competing for scarce deposits. There was also a resultant shift in the deposit mix from low cost (current and savings) deposits to higher interest paying fixed deposits during the year.

In the backdrop of the global financial crisis that prevailed during the latter part of the year and the general economic slow down key performance indicators for the sector are tabulated below:

Performance Indicator	2008	2007	Growth	%
Deposits (Rs. Bn.)	1,871	1,741	130	7.4
Loans & Advances (Rs. Bn.)	1,627	1,534	93	6.0
Total Assets (Rs. Bn.)	2,709	2,504	204	8.2
Non-performing Loans (Rs. Bn.)	100.7	79.1	21.6	27.3
NPL Ratio	6.2%	5.2%		



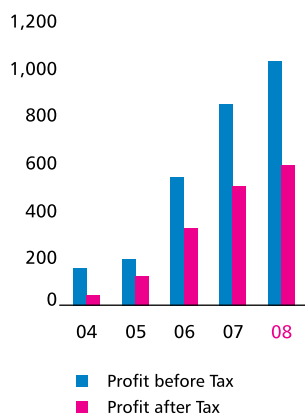
## Group Performance

**"WE DELIVERED PROFITS OF RS. 593 MN IN 2008 SHOWING THE BENEFITS OF THE SUCCESSFUL EXECUTION OF OUR STRATEGIC PRIORITIES"**

It was a very significant year for the Nations Trust Group, both strategically and financially. Our achievements demonstrate the ability to successfully face market upheaval and heightened competition and emerge strongly with a record financial performance. Modest business volume growth, continued focus on net margins, asset quality and disciplined approach to cost management have contributed to these results.

### Profitability

Rs. mn



Group Profit after Tax for the year was Rs. 593 mn compared to Rs. 505 mn in 2007, an increase of 17%. Income grew by 36% to Rs. 4,692 mn, ahead of operating expense growth of 34% excluding provision for bad and doubtful debts. Growth in income was well spread by business, with strong contributions from Treasury and credit cards.

Net Interest Income (NII) grew by 38% to Rs. 2,909 mn driven by significant Balance Sheet growth. Non-fund based income growth of 34% was broad based across all income categories. Total expenses increased by 41% compared to 2007 of which provision for bad and doubtful debts more than doubled during the year recording an increase of 117%.

### Net Interest Income

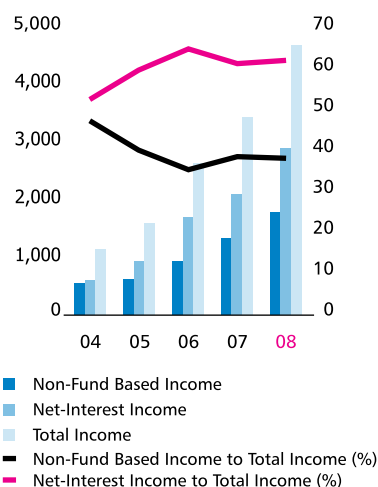
The interest rates of the country remained at relatively higher levels during the year with the interbank rates reaching a high of 22.83% in January 2008. The interest rates of the gilt-edged securities too remained at higher levels and deposits were seen shifting towards repurchase agreements of Government Securities. Further, due to the wide gap in interest rates between low cost deposits (savings and current deposits) and term deposits, an increasing preference for time deposits was seen in the market. In addition, banks were seen engaged in a price war to mobilise and retain savings deposits which took the traditional 5 - 7% savings interest rate to as high as 15%.

Withstanding the high and volatile interest rate regime that prevailed, the Bank posted an impressive 38% growth in net interest income and maintained a net interest income spread of 4.89% on total assets for the year compared to 4.18% for the previous year. Despite frequent rate hikes on deposits due to competitive pressures, proactive measures were afoot to arrest any margin erosion by timely re-pricing of assets portfolios and efficient balance sheet management.

### Composition of Income

Rs. mn

%



Total assets yields increased by 409 basis points to 19.60% (2007: 15.51%) reflecting changes in the product mix. The liabilities yields also increased by 306 basis points to 14.48% (2007: 11.42%) driven by competitive pricing of products. Adopting a funds transfer pricing mechanism based on market yield curves, also drove business units to re-price deposits and advances in a timely manner to maintain margins.

### Non-Fund Based Income

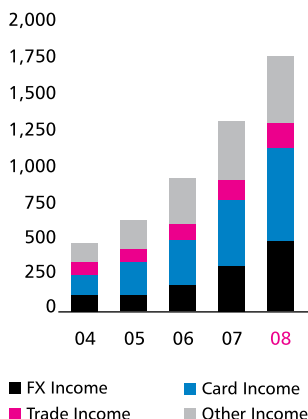
Non-Fund Based Income comprises of fee-based income from non-credit related transactions and other banking services, fee and commission from credit cards, trading gains from marketable securities and foreign exchange transactions.

Non-fund based income recorded a 34% growth bolstered by a strong FX performance. FX income increased by 51% compared to last year. Increased trade and foreign exchange volumes and active market participation contributed to the excellent performance in foreign exchange income. Credit card business too recorded a commendable growth.

Foreign Exchange income accounted for 28%, Credit cards business in the form of fees and commissions contributed 33% whilst trade finance income contributed 11% of the total Non-fund based income. The balance was derived from other operating activities.

### Composition of Non-Fund Based Income

Rs. mn



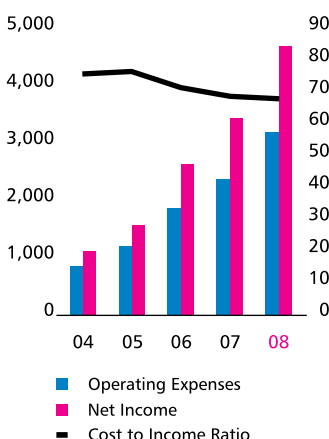
### Operational Expenses

Several initiatives took place during the year on cost containment as heavy capital investments were made to support the new Strategic Plan. With a view to enhancing overall customer experience and to delivering performance improvements in consumer banking segment, investments were directed at upgrading distribution capabilities, including restructuring and improving the branch network. With support functions moving into the Processing Centre, operational processes were restructured and simplified to improve efficiency and operational capacity with a view to achieve cost synergies in the medium term.

The Bank also embarked on a cost management drive during the year with a view of bringing in cost control measures on large cost pools and were successful in ensuring that the objectives were met.

### Cost to Income Ratio

Rs. mn



Personnel costs rose by 43%, pre-dominantly driven by salaries and allowances attributable to increased staff numbers. Headcount increased by 376 to 1,615 (2007: 1,239) in all business lines and across support functions reflecting investments made to support strategic initiatives and further growth. Training and development expenditure increased over 66% reflecting the level of importance given for developing people to contribute to the all-important performance culture of the Bank.

Advertising and promotional expenditure increased by 74% and was directed at accelerating customer mind set recall on the new corporate image, building customer loyalty across multiple products and revitalising the product offerings.

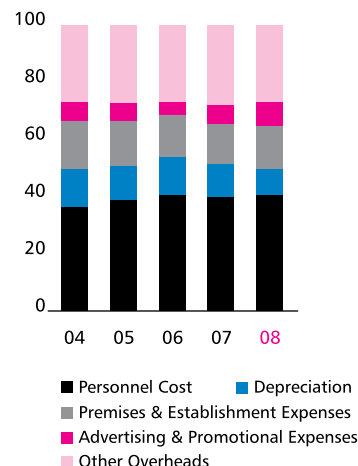
Inflation and supplier rate hikes too added pressure to our efforts in curtailing costs during the year.

Despite these challenges, increased business volumes and costs on new strategic initiatives the Bank was able to contain the growth in the operational expenses at 34% reflecting active management of all expense lines, targeted

process improvements and back office consolidation. The Bank managed to keep the growth in operating expenses at a marginally lower rate than the growth in net income of 36%. Operating efficiency as measured by Cost : Income ratio dropped from 69.4% in 2007 to 68.1% in 2008.

### Composition of Cost

%



The main components of the operational expenses are Personnel 36%, Premises and Establishment 18%, Advertising and Business Promotion 7% and other overheads 39%.

### Provisions

General slow down in the economy with decreasing commodity prices, lower export demand and low tourist arrivals during the year exerted pressure on corporates as well as those employed in such corporates. Tightening of the monetary policy throughout the year by the Central Bank in order to curb the spiralling inflation witnessed interest rates rising to an unprecedented high. This situation adversely impacted debt servicing capacity of the corporate and individual borrowers causing the banks to witness an increase in non-performing loans where average NPL ratio of the banking sector went up

from 5.2% in 2007 to 6.2% in 2008 with specific provision cover coming down from 54.1% in 2007 to 47.4% in 2008.

Nations Trust Bank also witnessed specific provisions increasing to Rs. 436 mn during the year from Rs. 161 mn in 2007. Specific provisions included certain prudential provisions made on account of several customer exposures over and above the provisioning policy of the Bank, which is more stringent than the guidelines of the Central Bank. The Gross Non-performing Advances Ratio deteriorated to 5.98% from 4.96% in 2007.

	2008	2007	2006
Non-Performing Loans	2,438,405	1,466,504	1,306,065
Provision for Loan Losses	1,194,227	819,012	762,020
NPL Ratio	5.98%	4.96%	5.08%
Provision for Loan Losses/NPLs	48.98%	55.85%	58.34%

## Taxes

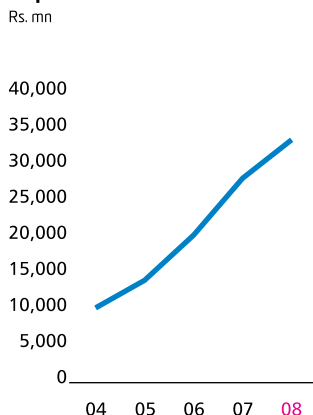
Total income tax expense of the Group increased from Rs. 342 mn to Rs. 435 mn. This is an increase of 27% compared to 2007. Effective tax rate of the Group (inclusive of VAT on Financial Services) increased to 48% from 45% recorded in the previous year, mainly due to the Financial VAT rate increasing from 16.67% to 20% which was disallowed as a tax deductible expense with effect from 1st January 2008. Total income tax expense of the Group increased by 27% compared to a pre-tax profit increase of 21%.

## Deposits

High interest rates on Government Securities impacted the growth in deposits of the banking sector. The widening gap in interest rates between low cost deposits i.e. savings and current deposits and term deposits resulted in investor preference shifting to the latter with low cost deposits in the industry increasing by only Rs. 33 bn (5%). Overall deposit growth slowed down significantly to 7.4% against the growth of 16.5% in 2007.

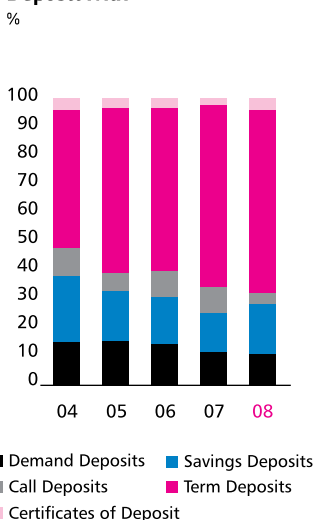
The Bank's customer deposit base reached Rs. 34.1 bn increasing by 19% with a relatively healthy increase in low cost funds compared to industry, in the backdrop of intense competition and rising interest rates.

### Deposits from Customers

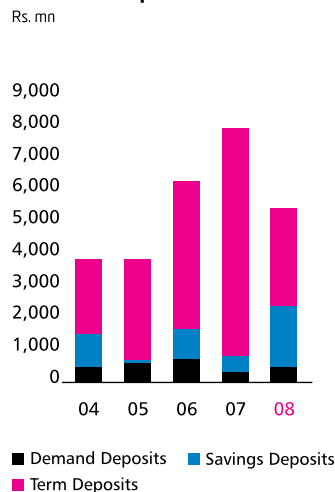


Growth in deposit portfolio by Rs. 5.5 bn in absolute terms has been the result of executing a deposit-led strategy with aggressive sales push and focus on improving the low cost deposit mix. Current and Savings deposits recorded a growth of 12% while term deposits grew by 15%. FCY deposit balances recorded an exceptional growth of 31% mainly due to the pioneering FX Trader product.

### Deposit Mix



### Growth in Deposit Mix



Sales tools and MIS supported the business with monitoring and tracking mechanisms required for customer acquisitions and understanding of customer behavioural patterns for executing strategies in their efforts in broad basing the deposit base.

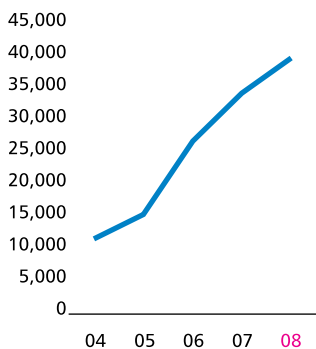
## Loans & Advances

Credit growth slowed down in the Banking sector as a result of declining credit demand due to high cost of borrowing as a consequence of the continued tight monetary policy stance. Lending activities in respect of all sectors moderated during 2008 from the high growth recorded during the past several years. Loans and advances of the industry grew by 6% compared to 19% growth recorded in 2007.

Nations Trust Bank loans and advances grew by 16% (Rs. 5,440 mn) to Rs. 39,940 mn (2007 - Rs. 34,500 mn). The loan book is of sound quality with its corporate lending portfolio dominated by large stable corporates. Much of the Bank's contribution to loan growth during the year has arisen from personal loans, leasing and credit card advances. Consumer lending segment accounts for over a third of the loan book, while being the largest contributor to loan growth.

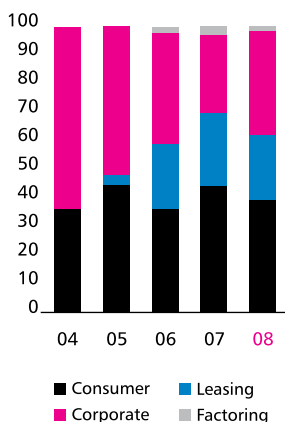
### Loans & Advances

Rs. mn



## Loan Mix

%



## Capital Base

Manifesting the shareholder support for the growth plans, the Bank in February 2008 successfully concluded a rights issue of shares infusing Rs. 1.048 bn. This was the first tranche of the innovative capital augmentation plan announced in December 2007. The capital plan is expected to infuse approximately a further Rs. 2,000 bn to the Bank by way of equity over the next three years upon conversion of warrants attached to the rights issued, in 2010 and 2011 at pre-specified prices.

The fresh capital funds also helped the Bank to maintain capital adequacy ratios well above minimum regulatory requirements, demonstrating higher risk absorption capacity and improved resilience in the light of new capital adequacy framework.

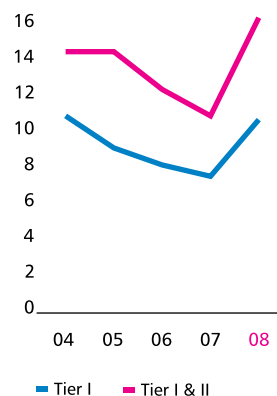
The Bank also raised Rs. 1.00 bn through the issue by way of a private placement of unsecured, subordinated, redeemable debentures strengthening the total capital adequacy ratio.

## Capital Adequacy

The enhanced core capital and supplementary capital base boosted the Tier 1 and Tier II Capital Adequacy Ratios to 10.31% and 15.70% respectively as at 31st December 2008.

### Capital Adequacy Ratio

%



- **FINANCIAL HIGHLIGHTS & GOALS**

## **Previous Year - 2007**

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PAT Rs. 505 mn
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Total Assets Rs. 56 bn
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Deposits Rs. 29 bn
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Loans & Advances Rs. 35 bn
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ROE 17.62%
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Cost : Income 69%
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## **Current Year - 2008**

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PAT Rs. 593 mn
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Total Assets Rs. 68 bn
------------------------

Deposits Rs. 34 bn
--------------------

Loans & Advances Rs. 40 bn
----------------------------

ROE 16.45%
------------

Cost : Income 68%
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## **Year Ahead - 2009**

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PAT Growth >25%
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Deposit Growth >20%
---------------------

Advances Growth >20%
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ROE >20%
----------

Cost : Income <65%
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# Check us out before you check out

These days, you'll find Nations Trust Bank all over the place - even at your local Keells Super, where we've opened Personal Banking Centres for our customers' convenience.





“Operating as we do within a fast-paced work environment that nurtures a high performance culture, we believe in open feedback and performance-based rewards. Our staff live the values and ethics of Nations Trust Bank, which is truly a ‘great’ place to work”

Nations Trust Bank has a Unique Service Proposition - to deliver unparalleled and unprecedented levels of service to our customers. In this endeavour, our Human Resources Division (HR) has a critical role to play. In order to realise and deliver on the Bank's new Vision of 'making life simple for our customers by being the benchmark of convenience' our HR processes and policies have been aligned with the new Vision.

During 2008, HR continued to strengthen the performance culture within the organisation through various initiatives. In recognition of their efforts the HR Team of Nations Trust Bank was bestowed with the Silver Award at the 'HRM Awards 2008', conducted under the auspices of The Institute of Personnel Management which was held in February 2008.

### RESOURCING

Our Resourcing processes are of vital importance in ensuring that the Bank acquires people with the requisite talent,

aptitude and mindset, to achieve its targeted growth and development over the coming years.

Thus, our HR division put forth several initiatives during the year.

We visited several professional institutes, universities and schools to promote the Bank's Employer Brand.

The Bank's vision of 'making life simple' for the customer was well served when we introduced e-Recruitment, which has proved to be a huge success among the tech savvy school leavers.

Our advertising campaigns continued to draw overwhelming response. All new recruits to the Bank attended a structured Induction Programme, which was itself revamped to lend more support to the thrust of our business, and to also better assist the cultural integration of staff.

### STAFF STRENGTH

The increase in staff numbers year on year reflects the vibrant growing entity that is Nations Trust Bank today.

#### Staff Numbers

2004	2005	2006	2007	2008
479	549	820	1,239	1,615

### TALENT MANAGEMENT

The Bank made a substantial investment in Talent Management during the year. Today, in order to win the 'war for talent' in Sri Lanka, the process of managing talent has become a top priority in many organisations.

To help the Bank develop its own Talent Management regime, we enlisted the services of Hewitt International, an institution renowned for their expertise in this field.

At the outset, the Bank developed a new Competency Model, in line with our

new Vision, Mission and Values of the Organisation. We have revamped all HR activities such as Resourcing, Training & Development and Rewards to realise the new Vision of the Organisation.

This laid a solid base for several initiatives, one of which is described below:

In order to ascertain the leadership potential of the Bank's Senior Management Team, a Life Styles Inventory (LSI) feedback tool was used, to gather the requisite data. Within this exercise, the Senior Management Team was evaluated by their superiors, peers and subordinates. The LSI together with the 360 degree feedback process will form the basis for the establishment of a Talent Pool and Succession Plan.

## PERFORMANCE MANAGEMENT

Through the robust performance management system, the HR division has been able to maintain a high performance culture in the organisation. In 2008, our Variable Bonus Scheme, which has contributed significantly to the Bank's performance, was further improved.

We may perhaps be the only financial institution in Sri Lanka, which has completely moved away from a fixed bonus regime to a Variable Bonus Scheme. A key attribute is that the Variable Bonus initiative applies to all categories of staff without distinction from the CEO to the Messengers and everyone in between.

## TRAINING & DEVELOPMENT (T&D)

2008 was a busy year for our training team with more than 10,000 trainee days being completed.

To illustrate the Bank's commitment towards employee development, we opened our own training centre, which is fully

equipped to conduct internal and external staff training programmes. This has proved to be more productive and cost efficient.

The Training Cycle started with the year-end appraisal where each appraisee was evaluated and the training needs identified. In consultation with Business Heads, HR came up with a comprehensive Training Plan, with the primary focus areas being Customer Service, Technical Skills, Teamwork and the development of a steady source of Leaders within the organisation. Also, in 2008, greater attention was paid to determine the ROI (return on investment) in training.

In 2008, the Bank improved its e-learning facilities through the addition of new modules thus enabling staff to embark on their learning processes at their own pace, place and convenience.

## REWARDS AND RECOGNITION

We believe in exploring every avenue and taking every initiative to ensure that the Bank is a top tier employer.

Thus the Bank was an actively and fully involved participant in the Compensation & Benefits (C&B) Survey conducted by Hewitt International. Our comparator group included leading foreign and local banks as well as top Multi-National Corporates (MNCs).

The Bank continued to operate a number of reward schemes both financial and non-financial. Sales Incentives, Star Performer Awards and the CEO's Club are some of them.

The Bank has clearly established that rewards are not based on seniority. In 2008, in line with our Vision of 'Simplicity', we launched 'Nations Quality Circle' to all staff.

This is an open competition where departments could submit various

proposals, that will simplify the lives of internal and external customers by way of improving or introducing new processes. These would be evaluated by an independent panel of judges with the winners being rewarded.

## COMMUNICATION

All employees who left the Bank's service in 2008 attended an Exit Interview with the HR division. These interviews always yield valuable insights on a multitude of factors concerning the Bank's processes and culture, amongst many other subjects. We have taken these comments constructively and apply them where relevant, towards improving our processes, policies and practices.

The Internal Customer Survey (ICS), which was conducted on two occasions in 2008, yields invaluable feedback which goes to strengthen and develop the support services of the Bank. This has tremendously improved the internal customer service standards and culture of the Bank.

The Bank's Joint Consultative Committee (JCC) facilitates employee representation to the CEO and the Corporate Management.

During the year under review, Ma Foi Consultants, a renowned firm of HR specialists conducted an Employee Attitude Survey (EAS) amongst the staff of the Bank. A healthy response rate of 71% was achieved. When compared with the results of the Bank's previous EAS, it was noted that almost all areas have shown a remarkable improvement.

Action plans are being drawn up to address the issues needing attention, as revealed through the results of the latest EAS.

## STAFF WELFARE

### Activities undertaken through the Sports Club

- As the Sinhala and Tamil New Year began, the Nations Trust family came together at *Soorya Mangalyaya* 2008, a gathering and celebration held at Dampe Village, Piliyandala. The event included traditional games, ceremonies and cultural performances. The festival was further enhanced by entertainment from the Hiru musical troupe and a grand time was had by all.



- The first-ever Nations Talent Search was held in October and November 2008. Staff members from trainee banking assistants to senior managers vied to show off their talents. The two main categories were singing and dancing (couples). There were over a hundred entries for the singing competition, while 15 couples entered the dancing competition. The finals of the Talent Search were held on a grand scale at St. Joseph's College Auditorium on 1st November. The event included guest performances by Billy Fernando and Acid Rain, Bathiya and Santhush, the famous violinist Ruwan and the Nadhro drum troupe. The judges were the well-known entertainment-industry figures Keerthi Pasqual, Jananath Warakagoda, Nevanthi Gunasekera and Aruna Perera.
- The customary Annual Nations Trust Bank Dinner Dance, held on 29th November at Water's Edge, offered an evening of glamour and

entertainment. The 'Wild, Wild West' costume theme was eagerly adopted by participants, who presented a colourful sight on the dance floor.



- Exactly a week later, the grounds of the famous Eighty Club came alive with dolphins, whales and other sea creatures when the Nations Sports Club organised its final event of the year, the Nations Kiddies Christmas Party, under the theme of the 'Christmas Under Sea'. The children of the Nations Trust family had a memorable evening.



## STAFF SPORTS

### Badminton

The Nations Trust Bank team won the MBA Challenge Trophy in the veterans category for the third consecutive year at the Mercantile Badminton Championships 2008, while our men's team took third place. Priyantha Wijesekera was named MBA Outstanding Player of 2008.

### Cricket

Having been runners-up in the Mercantile C Division in 2007, our team faced tougher competition following their promotion this year to the B Division, winning one out of six games played.

## Netball

Our netballers became plate category runners-up in the SriLankanSports.com challenge, which was held in February. The team also participated in the All-Island Open Netball Championship, held in Matara, and in the InterCompanySports.com netball challenge in November.



## Basketball

Nations Trust Bank's B Team were ranked runners-up in division D of the MSBA Knockout 2008. In the MSBA Semi-League 2008 tournament, our 'A' Team made it into the semi-finals in Division A, while our 'B' Team were runners-up in Division D.

### Staff welfare activities of the Sports Club

A number of special promotions were organised by the Sports Club, in which exclusive discounts were offered to our staff on such desirable items as garments, jewellery, footwear, mobile phones, computers and satellite TV connections.



**“Nations Trust Bank believes that as a bank and as individuals we have a duty to be responsible citizens: to make an appropriate return to the community that sustains us”**

Corporate-citizenship projects undertaken by the Bank are designed to maximise staff involvement, providing an interactive and personal experience for individual staff while ensuring that such initiatives arise naturally out of the corporate culture, a part of whom we are as a bank and what we represent.

The Sri Lankan corporate sector has always responded swiftly and appropriately in times of national and local disaster. However, the prevailing trend towards greater corporate accountability and responsibility has seen a shift of emphasis to sustainable long-term projects. One result has been a diminution in funds and effort readily available for disaster relief.

While increased efforts are being made in the field of disaster preparedness at national and policy level, this does not necessarily meet the immediate needs of

individuals affected by a disaster. With this fact in mind, Nations Trust Bank has always acted promptly to provide immediate relief to victims in times of disaster.

This commitment to disaster response is an essential element of the Bank's CSR policy. However, Nations Trust Bank, like other responsible companies, supports long-term projects that benefit communities and other groups in need. The following is a brief description of CSR projects undertaken by the Bank and its staff in the year under review.

### **PRESERVING RAINFOREST BIODIVERSITY IN HIYARE**

The Bank, in partnership with the Wildlife Conservation Society of Galle and the Galle Municipal Council, embarked on a biodiversity conservation project in the Hiyare Rainforest, a lush tract of first-growth rainforest near Galle. The project seeks to expand awareness of the

importance and rich diversity of the forest ecology and works actively to protect it.



Hiyare is a 600-acre rainforest within half an hour's drive from the Bank's Galle branch and incorporating a lake of 55 acres in extent. Though it is surrounded by tea plantations and other habitations in an area where human impact is very high, a study carried out by the Wildlife Conservation Society in 2007 revealed a comparatively high level of biodiversity in Hiyare compared with other low-country rainforests. According to the

study, the area supports 103 bird species, including twelve endemic species. Insect life also shows high diversity, particularly in the case of dragon-flies and damsel-flies, of which 39 species, eight of which are endemic to the area, were observed and recorded. Hiyare also boasts 51 different species of butterflies. Of the 68 freshwater fish species known to exist in Sri Lanka, 31 species were observed in Hiyare Lake and other habitats in the area; the number includes 14 endemic species and a few very rare ones.



### Scope of the project

The Bank supports and funds the Wildlife Conservation Society of Galle in its research and conservation efforts. The Society aims at conserving the biodiversity of Hiyare rainforest through a programme to increase public understanding of the need for conservation and of measures that need to be taken to achieve it. The society undertakes a variety of such activities, including:

- intensive full-day and two-day residential programmes for schoolchildren in higher grades and university students, incorporating both theory and practice and featuring visits to Hiyare;

- educational programmes for visitors to Hiyare, schoolchildren and undergraduates; and
- a rescue programme for injured animals, in which the society accepts wildlife from the area for veterinary and surgical treatment followed by post-operative care, rehabilitation and release into the wild. Since Nations Trust Bank became involved in the project, animals such as rare hog deer, pythons, a pangolian and whistling geese have been treated.

### OTHER CSR INITIATIVES IN 2008

In addition to the above long-term programme, Nations Trust Bank and its staff also engaged in the following activities:

- Cleaning and repainting Ward 19 at the Maharagama Cancer Hospital. This has now become a fixture on the Bank's social calendar. This year, the renovation programme was accompanied by a sizeable donation of medicines required by patients in the ward. Nations Trust Bank staff also raised funds among themselves to provide food packs to all patients at the hospital at a total cost of Rs. 800,000.
- When heavy floods rendered thousands of people homeless in June 2008, Nations Trust Bank responded to a request from the National Disaster Management Centre by donating 15,000 bottles of water for distribution among residents of Kalutara District, which was one of the worst affected. The Bank also conducted a medical camp at Thebuwana Vidyalaya, a school in the district, where a team of ten volunteer doctors treated a total of 548 people. Most of these doctors who are spouses of Bank staff provided their services gratis.
- The Bank secured a grant of Rs. 2.4 mn from its partner American Express for use on a project to benefit victims of the 2004 tsunami. The funds were used to build two pre-schools in Hambantota District. On this project, Nations Trust Bank and the John Keells Social Responsibility Foundation have entered into a partnership with the Janasuwaya Foundation to ensure that the schools are properly maintained in the future.
- A blood donation campaign organised by the Bank's Welfare and Sports Club in May saw donations from more than a hundred of our staff members.





# “At Nations Trust Bank, we attempt to ensure that our risk taking is informed and prudent”

The Return On Assets of banks is relatively lower due to the nature of the business of banking, and as a result, banks have to operate at high levels of gearing in the process of financial intermediation in order to generate adequate returns which are acceptable to the shareholders. Increasing levels of gearing coupled with growing sophistication of banking products and services, markets and technology exposes banks to a multitude of risks such as credit, liquidity, interest rate, foreign exchange rate, operational, legal, regulatory, reputational etc., which are interdependent to a great extent. Careful management of these risks not only prevents any potential losses but could also provide opportunities for new or greater business which could turn in huge rewards. Hence, Risk Management is about achieving the optimum trade-off between avoiding/protecting against a potential danger and an opportunity to enhance returns.

At Nations Trust Bank, we attempt to ensure that our risk taking is informed and prudent. Our efforts on Risk Management are geared to ensure that:

- (a) the total risk being taken is matched to the Bank's capacity for absorbing losses if things go wrong; and

- (b) to direct the scarce resource of capital to opportunities that are expected to create the maximum return with the minimum risk.

2008 was an eventful year for the Bank from the perspective of Risk Management as well.

Demonstrating the commitment of the Board to a strong and independent Risk Management function and in compliance with the guidelines issued by the Central Bank of Sri Lanka, a Board Integrated Risk Management Committee was set up during the year. The Bank also prepared and obtained the approval of the Board for a number of policies which will strengthen the Risk Management infrastructure. These included Risk Management Policy, Terms of Reference for the Board Integrated Risk Management Committee, Communications Policy and Code governing Share Dealing by Employees.

Under the aegis of the Board Integrated Risk Management Committee, the Bank tabulated the important Risk Indicators and their goals that need to be monitored by the Risk Management Committee. Commencing from 1st quarter of 2009, the Bank will report to the Risk Management Committee on the actual status of these risk indicators against the set risk goals.

### CREDIT RISK

Credit Risk is defined as the risk of non-payment by a counterparty of capital and interest on due dates that can be attributed to one or more factors affecting a business in a given environment. Banks are therefore, attaching a greater emphasis and importance to Risk Management tools and control procedures to better understand its customers and their business performance in order to identify emerging trends and take proactive steps to minimise losses.

The Bank has therefore brought in improvements to the existing Risk Management systems and procedures to achieve this objective given the increasingly difficult environment for credit growth during 2008. Among them were the introduction of an additional mid-year financial and performance review of large credit exposures and a more stringent risk grading methodology of customers with greater focus on financial data. This has enabled reassessment of the overall credit quality of the Corporate and Wholesale book. Our automated early warning systems will continue to give adequate warnings on accounts which will need closer attention.

The asset writing strategy for the consumer lending area consisting of consumer loans and Credit Cards came under the close

scrutiny of a separate Consumer Credit Risk Committee that reviewed market developments and weakening disposable income levels of the average consumer during the year for appropriate risk control measures. The Bank also used the services of external consultants to review the collection processes and practices and introduce improvements while work on a credit scoring system is in progress for implementation in early 2009.

The Bank's Credit Management policies and guidelines are approved by the Board of Directors with a comprehensive mechanism to evaluate and approve Credit through delegated powers entrusted with the Head Office Credit Committee which, in turn, recommends to the Board Credit Committee proposals outside its authority.

The Credit Risk Management Division independently evaluates all credit proposals above a certain limit and monitors industry and sectoral exposures while also ensuring that regulatory guidelines pertaining to Single Borrower Limit and maximum aggregate limits to high exposure clients are complied with. It also monitors portfolio performance through periodic reviews and identifies early warning signals and emerging trends to take appropriate remedial action.

The Board Supervisory Committee reviews monthly a detailed analysis of non-performing loans and advances (NPLs), sector-wise NPL statistics; high risk exposures which is submitted to the Board for discussion. It also undertakes a comprehensive review of all high exposures on a quarterly basis to gauge and understand the quality of the Bank's lending portfolio and recommends suitable action to the Bank's Corporate Management.

The Bank adopts a conservative policy towards specific provisioning and begins provisioning on facilities that are in arrears for more than 90 days, which is more stringent than the requirement of the Central Bank of Sri Lanka.

The administration and management of credit is independent of the business units. The Credit Administration Unit deals with the operational issues relating to the granting of facilities including the control of security, loading of limits to the system and the provision of reports.

## ASSET AND LIABILITY MANAGEMENT

Asset and Liability Management deals with the management of the market risks that arise from the Bank's structural position of assets and liabilities, On-Balance Sheet and Off-Balance Sheet, created in the process of financial intermediation. The Bank accords the highest importance to the Asset and Liability Management (ALM) function and has laid down a well structured procedure to ensure that the Bank is able to offer competitively priced products and services to customers whilst maintaining an appropriate risk/reward profile that creates shareholder value. This includes risk assessment in all dimensions including:

- Policy setting
- Structuring of the Bank's re-pricing and maturity schedules
- Undertaking financial hedge positions
- Capital budgeting
- Internal profitability measurement

ALM also includes contingency planning by analysing impact of unexpected changes in the environment in terms of interest rates, competitive conditions and economic fundamentals and plans as to how the Bank will respond to them.

Managing the risk that arises from the mismatches in various attributes of assets and liabilities is a key for the success of Bank's growth and profitability. The Asset and Liability Management Committee (ALCO) is chaired by the Chief Executive Officer and comprise the Heads of Business Units, Head of Credit Risk Management, Chief Financial Officer and Head of Internal Audit. ALCO, under delegated authority from the Board, sets policies in relation

to management of structural balance sheet exposures. The ALCO is also given specific authority by the Board to review and implement prudent Risk Management policies in the day-to-day operations of the Bank. ALCO reports to the Board and recommends changes of the policy beyond its authority of approval.

Exchange rate risk exposures, liquidity and interest rate risk profiles are analysed and reported at the ALCO meetings held monthly. The potential impact due to interest rate movements is also reviewed. The Bank also adopts a daily Risk Management process by reviewing Risk Management reports daily by the relevant Heads of Departments and other senior personnel in order to achieve the risk objectives of the Bank. Appropriate Balance Sheet strategies are discussed and implemented. ALCO monitors the structure/ composition of Bank's assets and liabilities and decides on product pricing for deposits and advances. ALCO also decides on the transfer pricing policy of the Bank.

## MARKET RISK

Market risk is the risk of potential for losses that will result due to unfavourable movements in factors such as interest rates, exchange rates, equity and commodity prices. It is the risk of losing money because the perceived value of an instrument has changed. The primary market risk to which the Bank is exposed to are interest rate risk and exchange rate risk. The Bank's exposure is controlled by limits approved by the Board, the monitoring of which is carried out by the ALCO. The market risks arising from interest and exchange rates volatility is centrally managed by the Treasury Division ensuring adherence to Board policy. The Foreign Exchange exposure is mainly derived from trade and remittance flows, trading activities by treasury and structural foreign currency translation exposure. The Settlement Department is independent of foreign currency dealing operations in order to reinforce the Bank's Risk Management



process. The Bank has set up an independent middle office for limit monitoring and deal tracking, which office reports to the Head of Credit Risk Management.

The Bank monitors continuously and takes necessary actions to manage the cost of funding to maintain acceptable margins in response to changing market conditions. The Value-At-Risk and the Duration concepts as well as dynamic gap planning are implemented and calculated daily to complement the traditional measures of notional and gap limits. Treasury Department is mainly responsible to ensure that exposures are within set parameters, which is reviewed by ALCO.

## LIQUIDITY RISK

Given the dramatic events unfolding in the global financial markets and a slow down in the local financial services industry, liquidity has become a key business imperative.

Liquidity risk is the risk of being unable to ensure sufficient availability of Cash Flows to meet all financial obligations of the Bank as and when they fall due. Hence, the Bank's main objective in this regard is to ensure that sufficient cash flows are available to meet all of the Bank's financial commitments and to expand business, on a timely and cost-effective basis, under various market conditions. Apart from maintaining the statutory Liquid Assets Ratio above the minimum requirement of 20% at all times, the Bank has adopted a number of methods to manage liquidity at optimum levels.

The Maximum Cash Outflow report in the fortnightly ALCO pack categorises the assets and liabilities into suitable time buckets with Board approved exposure limits on each time bucket up to three months. ALCO reviews this report and effects corrective action as necessary to ensure that the outflows are within the approved limits. Board approved ALCO Terms of Reference and a Liquidity Policy are in place. Treasury division is responsible

for complying with the Liquidity Policy to ensure the Bank has sufficient cash flows to meet its financial obligations on a timely basis. The Bank also holds a sufficient level of highly liquid marketable assets such as Government of Sri Lanka Treasury Bills and Bonds. Taking cognisance of the market developments and with a view to strengthen the process of managing liquidity further, the Bank commenced stress testing of liquidity during the year. It assesses the funding capability of the Bank under normal market conditions as well as in times of distress due to market related or Bank specific factors under two different levels of contingency. In accordance with the Liquidity Policy, the ALCO which meets on a monthly basis under normal market conditions, is required to meet more frequently when abnormal market conditions (as defined in the policy) apply, to monitor and map out strategies to address liquidity concerns.

## OPERATIONAL RISK

Operational risk can be defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Studies into recent bank failures demonstrate that it is often a breakdown of basic internal controls that have posed the greatest risk to financial institutions and that such instances may sometimes harm even the reputation of the Bank. Managing operational risk has in fact gained an added importance in the wake of phenomenal increase in volume of transactions, growing sophistication of financial technology, growth of e-commerce, greater outsourcing for transaction processing, complex support systems etc. the Bank has established a sound Management Information System, a strong internal control culture and contingency plans to address operational risks. By managing operational risks, the Bank expects to operate in full compliance with regulatory guidelines, maximise operational performance while simultaneously minimising operational losses.

Primary responsibility for managing operational risks rests with the business lines. Operational risk is mitigated by the implementation of internal controls. The Bank's processes and procedures are under continuous review. Where possible, identified operational risks are insured.

Regular reviews of the implementation of the Bank's procedures and internal controls and their effectiveness is carried out by the Internal Audit Department that reports to the Board Audit Review Committee.

Additionally, a Compliance Department has been set up with a member of the Corporate Management as the Chief Compliance Officer (CCO). Directly reporting to the CCO, the Manager - Compliance heads the Compliance Department and is primarily responsible for the implementation and monitoring of all regulatory controls and initiatives including all Anti-Money Laundering and Combat of Financing of Terrorism (AML/CFT) activities. Each business and support unit within the Bank has nominated an officer who will interact with the CCO and the Manager - Compliance for all AML/CFT, regulatory and compliance related matters.

## CONCLUSION

Regulatory developments are making it compulsory that banks implement rigorous and robust Risk Management methodologies in their internal models. Basel II also places heavy reliance on the internal risk assessment and management techniques for the purpose of quantifying and allocating capital for credit, market and operational risks. Under a risk-focused approach to bank supervision, Regulators will be placing more and more emphasis on the soundness of the Risk Management practices of banks. Accordingly, the Bank has given due importance to the development and implementation of Risk Management capabilities and will continue to build it further in 2009.



# Delivered to Your Door

With Nations Trust Bank's 'Banking at your Doorstep', you don't have to come to the bank the bank will come to you. Our best customers can now get a whole portfolio of valuable services delivered to their door!



# Governance Report

Good governance is an integral part of life at Nations Trust Bank. The Board of Directors of the Bank has placed great emphasis on ensuring good governance in every aspect of its business. Board is committed to enhancing stakeholder value whilst ensuring that proper internal control systems are in place to govern the day-to-day affairs of the Bank, in a manner which is transparent, ethical and law abiding. Whilst ensuring that generally accepted corporate governance practices are followed, the Board is also required to comply with the specific requirements under the Listing Rules of the Colombo Stock Exchange relating to Corporate Governance and the requirements under Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka as applicable.

## BOARD OF DIRECTORS

The Board comprises professional and experienced leaders of high repute, from the corporate and finance sectors, who together contribute a wealth of practical insight and business acumen. The Board has approved a strategic plan and key policies for the Bank and effectively monitors their implementation. The Board appoints the Chief Executive Officer and Corporate Management who together make up the Key Management Personnel of the Bank.

The Board has also approved a risk policy whereby the principal risks have been identified with measurable goals for managing such risks. Board continuously monitors the efficacy of the risk management mechanism in the Bank and with the establishment of an Integrated Risk Management Committee on 1st December 2008 implementation of the risk management mechanisms will be carried out through the Integrated Risk Management Committee (IRMC). IRMC has met twice since its establishment on 1st December 2008.

Board has also approved a Communications Policy for the Bank and has a formal schedule of matters specifically reserved for Board approval, to ensure that the direction and control of the Bank is firmly under its authority.

Board has clearly defined and reduced into writing the role and responsibilities of the Chairman and the Chief Executive Officer (CEO) which positions are held by two separate individuals with no relationship to each other. 8 Directors out of the total number of 10 are non-executive directors. Three of the non-executive directors are independent of management and ownership being free from any business or other relationship which could materially interfere with their judgment. Executive directorate comprises of the CEO and one other Executive Director. Names of the Directors and their status are given in the Annual Report of the Board of Directors on Page 67. Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka requires that where the Chairman is not an independent Director the Board shall appoint an independent director as the Senior Director. Requirement under the said directions to have a minimum of three or one-third of the total number of directors as independent directors satisfying the criteria laid down in the directions becomes applicable from 1st January 2010. The Bank currently has three directors who satisfy the requirements under the Listing Rules of the Colombo Stock Exchange applicable to independent directors and has designated one such director namely Mr. A.R. Rasiah as the Senior Director.

Based on the recommendation of the Human Resources and Remuneration Committee the Board sets goals and targets for the CEO and the Executive Director. Performance of the CEO and the Executive Director is monitored on an ongoing basis and a formal

appraisal is carried out at the end of the year by the Human Resources and Remuneration Committee based on whose recommendation the Board will determine the remuneration of the CEO and Executive Director.

The procedure adopted for new appointments to the Board was to invite all members of the Board to suggest suitable names for consideration by the whole Board. Agreement of the whole Board was obtained for new appointments to the Board. With the formation of the Nominations Committee and the adoption of a Board Composition and Succession Plan, recommendation of suitable names to the Board becomes the responsibility of the Nominations Committee. Nominations Committee will also assist the Board to determine whether the Directors are fit and proper as required under the Banking Act and Directions issued thereunder.

## BOARD MEETINGS

During the year under review, the Board met 12 times. A schedule of monthly Board meetings is approved in advance by the Board. Attendance of the Directors at the board meetings are given on page 67 in the Annual Report of the Board of Directors.

A Board Supervisory Committee, comprising of two non-executive Directors and one executive director has been appointed to oversee and guide the Bank with respect to corporate planning, performance management and operations. The CEO and all key management personnel attend these meetings by invitation. This Committee convenes at least once a month, in addition to special meetings and ongoing consultations as appropriate.

The day-to-day management of the Bank is carried out by the Corporate Management headed by the Chief Executive Officer. The Corporate Management meets weekly

to monitor performance and deals with operational issues. In addition, monthly meetings are held with Senior Management staff to review performance against budget and the achievement of both financial and non-financial targets.

The Bank's audit functions are the responsibility of a Board Audit Review Committee reporting directly to the Board of Directors. The Committee consists of three non-executive Directors with two of them including the Chairman being independent directors. Head of Internal Audit functions as the Secretary to this Committee. The Director/Chief Executive Officer and the Deputy Chief Executive Officer attend the meetings by invitation. Other members of the Corporate Management attend as and when required. The full report of this Committee is given on page 64 of this report.

The Board places strong emphasis on transparency and accountability. All Financial Statements are prepared adhering strictly to the Sri Lanka Accounting Standards, requirements of the Colombo Stock Exchange and the Banking Act. All periodic information and returns are submitted to regulatory authorities as required. Compliance with statutory regulations is monitored regularly by the Board.

The Board has implemented systems to ensure that the policies laid down by the Board are implemented and the assets of the Bank safeguarded. A management information system provides timely and reliable information. Procedures have also been implemented to ensure compliance with statutory and regulatory requirements.

Board is provided with complete and adequate information relating to matters listed in the agenda of every Board meeting well in advance of the meeting. All Directors have access to the advice and services of the Company Secretary. Board procedure provides for Directors to have

access to independent professional advice at the expense of the company.

Compliance with the Listing Rules on Corporate Governance (Section 6 of the Listing Rules of the Colombo Stock Exchange) becomes mandatory for the

Bank with effect from the financial year commencing on 1st January 2009 being the financial year commencing on or after 1st April 2008. The table below indicates the level of compliance as at the date of this Annual Report.

Rule under the Listing Rules of the Colombo Stock Exchange	Remarks
1. Rule 6.1 - Board shall include at least such number of non-executive Directors equivalent to one third of the total number of directors	Complied with. 8 out of the 10 Directors are non-executive Directors.
2. Rule 6.2 - Two or 1/3 of the non-executive Directors whichever is higher shall be independent	Complied with. 3 out of the 10 Directors (3 out of 8 non-executive Directors) are independent Directors.
3. Rule 6.3 - Disclosures relating to Directors	Complied with. Names of the Directors determined to be Independent Directors are given on page 67 of the Annual Report. A brief resume of each Director is given on page 59 of the Annual Report.
4. Rule 6.4 - Criteria for determining independence of Directors	Complied with. All directors listed as independent satisfy the criteria given in this rule.
5. Rule 6.5 - Remuneration Committee	Complied with. Comprises of three non- executive Directors, two of whom are independent. Names of Directors who are members of the Human Resources and Remuneration Committee and the statement of remuneration policy are given on page 65 of the Annual Report and the total remuneration paid to Directors is given on page 66.
6. Rule 6.6 - Audit Committee	Complied with. Comprises of three non- executive Directors, two of whom are independent. Chairman of the Committee satisfies the requirements given in Rule 6.4. Report of the Audit Committee is given on page 64.

## Board of Directors





**01. A.D. Gunewardene - Chairman**

Mr. Gunewardene is the Deputy Chairman of John Keells Holdings PLC and has been a member of their Board for over 16 years. He is a Director in many companies in the John Keells Group. He is also the Chairman of Union Assurance PLC. He is a Director on the Board of Nanco PLC, a company established for the development of Nanotechnology in Sri Lanka under the auspices of the Ministry of Science and Technology. He was also appointed as a Member of the National Advisory Council for Export Development (NACFED) by the Minister of Export Development and International Trade. He has also served as the Chairman of the Colombo Stock Exchange. In addition to being a member of the Board of the Sri Lanka Tourism Promotion Bureau, he serves on several committees appointed by the Minister of Tourism for the development of this industry in Sri Lanka. Mr. Gunewardene has a Degree in Economics and brings over 26 years of experience to your Board.

**02. E.H. Wijenaike - Deputy Chairman**

Mr. Wijenaike is the Managing Director of Central Finance Co. PLC, a leading Non-Banking Financial Institution (NBFI) in the country. He has over 27 years of management experience. He is a Director of several quoted companies within and outside the Group. He holds a Bachelor's Degree in Commerce and a Postgraduate Diploma in Finance and Management. He is a member of The Chartered Institute of Management (UK) and a Fellow of the Institute of Credit Management. He has been a Director of the Bank since its inception and serves as a member of the Board Supervisory Committee, Credit Committee and the Nominations Committee of the Bank.

**03. Z.H. Zavahir - Director/CEO**

Mr. Zavahir is the Director/Chief Executive Officer of the Bank. He has over 30 years of banking experience, having served in various senior management positions with ANZ Grindlays Bank, both locally and overseas. Having joined Nations Trust Bank as Assistant General Manager - Finance and Corporate Planning in early 2001, he assumed the position of Chief Executive Officer in April 2004. He was appointed a Director in October 2006. He is a Fellow Member of The Chartered Institute of Management Accountants, UK and an Associate Member of the Chartered Institute of Bankers, London.

**04. S.C. Ratnayake - Director**

Mr. Ratnayake is the Chairman of John Keells Holdings PLC. He has been a member of John Keells Holdings PLC Board since 1992/1993. He oversees Group Strategy and New Business Development.

**05. J.R.F. Peiris - Director**

A Director of John Keells Holdings PLC and many of its subsidiaries, Mr. Peiris has overall responsibility for John Keells Group Finance, including Treasury, Taxation, Corporate Finance, Insurance and the Information Technology functions. Previously, Managing Director of Anglo American Corporation (Central Africa) Limited and EXCO Member of Konkola Copper Mines PLC, both in Zambia. Mr. Peiris has served in many Boards overseas and has over 35 years finance and general management experience in Sri Lanka and abroad. Mr. Peiris also serves as the Chairman of the Taxation Sub-Committee of the Ceylon Chamber of Commerce. He is a FCMA and a FCCA, and also holds an MBA from the University of Cape Town, South Africa. Mr. Peiris functions as the Chairman of the Integrated Risk Management Committee of the Bank.

**06. A.K. Gunaratne - Director**

Mr. Gunaratne is the Director - Group Co-ordination of Central Finance Company PLC, a leading Non-Banking Financial Institution (NBFI) in the country where he oversees the functions of Strategic Planning and Risk Management. Mr. Gunaratne also functions as Director/CEO of CF Venture Management Company Limited and Zyrex Power Company Limited, which are companies within the Central Finance Group. He is a Fellow Member of The Chartered Institute of Management Accountants of UK and The Institute of Chartered Accountants of Sri Lanka. Mr. Gunaratne serves as a member of the Board Supervisory Committee, Board Audit Review Committee, Credit Committee and the Integrated Risk Management Committee of the Bank.

**07. C.H.S.K. Piyaratna - Executive Director**

Mr. Sarath Piyaratna is an Executive Director of the Bank. He was appointed to the Board of Nations Trust Bank in October 2006, after a successful career at HSBC spanning 28 years. His career at HSBC included assignments in Group offices in Hong Kong and Philippines. He served as the Deputy CEO and Head of Personal Financial Services at HSBC - Colombo from 2000 until his retirement in 2006. Mr. Piyaratna holds a Bachelor's Degree and a

Master's Degree in Economics. Mr. Piyaratna is the Chairman of the Board Supervisory Committee of the Bank.

**08. Dushni Weerakoon - Director**

Dr. (Ms.) Weerakoon holds a Ph.D. in Economics and an MA in Economics from the University of Manchester, United Kingdom. She obtained her B.Sc. in Economics from the Queen's University of Belfast, United Kingdom. Currently, Dr. (Ms.) Weerakoon is carrying-out research and teaching in international economics and macroeconomic policy management.

**09. A.R. Rasiah - Director**

Mr. Rasiah is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka and holds a Bachelor of Science Degree from the University of Sri Lanka. Mr. Rasiah possesses well over 30 years of experience in Finance at a very senior level both internationally and locally and currently serves on the Boards of Ceylon Cold Stores PLC, and MTD Walkers PLC. He is also Commercial Consultant for Bairdwear Interfashion Limited. Mr. Rasiah has been a visiting lecturer on Finance and Accounts for Nestlé SA for Africa-Asia and Oceanic Regions and former visiting lecturer and examiner at The Institute of Chartered Accountants of Sri Lanka. He is currently a visiting lecturer for MBA students on Finance at Postgraduate Institute of Management (PIM). A keen social worker, he is a former President of the Benevolent Society of The Institute of Chartered Accountants of Sri Lanka and a Committee Member of Sri Lanka Institute of Directors. Mr. Rasiah is also a sportsman of repute having represented Sri Lanka at Table Tennis. Mr. Rasiah functions as the Chairman of the Board Audit Review Committee and is also a member of the Human Resources and Remuneration Committee.

**10. M.E. Wickremesinghe - Director**

Mr. Wickremesinghe holds an Honours Degree in Law from the University of Colombo, is a Fellow of the Chartered Institute of Management Accountants of the United Kingdom and is an Attorney-at-Law of the Supreme Court of Sri Lanka specialising in Corporate, Commercial and Banking Law. He has lectured and examined at the Faculty of Law of the University of Colombo, at the University of Moratuwa and at the Kotalawela Defence Academy. Mr. Wickremesinghe functions as the Chairman of the Nominations Committee and also serves as a member of the Integrated Risk Management Committee of the Board.



## Corporate Management



**Mr. Arthur Fernandez**  
Head of Internal Audit

**01. Mr. Zulfikar Zavahir**  
Director/CEO

**02. Mr. Iftikar Ahamed**  
Deputy Chief Executive Officer

**03. Ms. Renuka Fernando**  
Deputy General Manager -  
Consumer Banking

**04. Ms. Keshini Jayawardena**  
Deputy General Manager -  
SME Banking

**05. Mr. Lalith Fernando**  
Head of Credit Risk Management

**06. Mr. Rohitha Ganegoda**  
Chief Operations Officer

**07. Mr. Chandrasiri Hewapattini**  
Head of Human Resources

**08. Mr. Lasith Nanayakkara**  
Chief Information Officer

**09. Mr. Raja Senanayake**  
Chief Financial Officer

**10. Mr. Theja Silva**  
Head of Legal & Company Secretary

**11. Mr. Priyantha Talwatte**  
Deputy General Manager -  
Sales & Marketing

## Senior Management



- 01. **Mr. Reynold Abeykoon**  
*Chief Manager - Corporate Support Services*
- 02. **Mr. Irishad Ally**  
*Chief Manager - Branches and PBCs*
- 03. **Mr. Kapila Bandara**  
*Chief Manager - Alternate Channels*
- 04. **Mr. Sheahan Daniel**  
*Chief Manager - SME Banking and Factoring*
- 05. **Mr. Lewie Diasz**  
*Chief Manager - Cards and Consumer Assets*
- 06. **Mr. Anushan Fernando**  
*Chief Manager - Branch Operations*

- 07. **Mr. Bandara Jayathilake**  
*Chief Manager - Wholesale Banking*
- 08. **Mr. Gavin Perera**  
*Chief Manager - Consumer Credit Risk and Collections*
- 09. **Mr. Shanmugam Puvaneswaran**  
*Chief Manager - Consumer Sales*
- 10. **Mr. Rajeev de Silva**  
*Chief Manager - Leasing*
- 11. **Mr. Lalaka Siriwardena**  
*Chief Manager - Corporate Banking*
- 12. **Ms. Ramanika Unamboowe**  
*Chief Manager - Human Resources*
- 13. **Mr. Priyantha Wijesekera**  
*Chief Manager - Leasing Operations*

- 14. **Mr. Dilshan Wirasekara**  
*Chief Manager - Treasury*
- 15. **Ms. Kushlani Allis**  
*Senior Manager - Management Information and Planning*
- 16. **Mr. Nisaja Aryasinghe**  
*Senior Manager - Collections*
- 17. **Mr. Karthigesu Balachandrarajan**  
*Senior Manager - Central Operations*
- 18. **Mr. Tharusha Ekanayake**  
*Senior Manager - FIS and Debt Sales*
- 19. **Mr. Priyashantha Fernando**  
*Senior Manager - Leasing - Zone 2*
- 20. **Mr. Ruwan Fernando**  
*Senior Manager - NL Recoveries*



21. **Ms. Nilmini Gunaratne**  
*Senior Manager - Marketing Services*
22. **Mr. Indrajith Gunasekera**  
*Senior Manager - Retail Banking Credit*
23. **Mr. Samantha Herath**  
*Senior Manager - Delivery Channels*
24. **Mr. Chaminda Jayawardena**  
*Senior Manager - Nations Insurance Brokers*
25. **Mr. Nisala Kodippili**  
*Senior Manager - Technology*
26. **Ms. Laksara Marapana**  
*Senior Manager - Legal*
27. **Mr. Chamath Munasinghe**  
*Senior Manager - Credit Operations*

28. **Mr. Damith Pallewatte**  
*Senior Manager - Credit Risk*
29. **Ms. Ruthie Pelpola**  
*Senior Manager - NL Finance and Planning*
30. **Ms. Melani Perera**  
*Senior Manager - Corporate Banking*
31. **Mr. Sanjaya Perera**  
*Senior Manager - Delivery Channels*
32. **Mr. Shiyan Perera**  
*Senior Manager - Leasing - Zone 1*
33. **Mr. Chandima Samarasinghe**  
*Senior Manager - Internal Audit*
34. **Mr. Wasantha Senanayake**  
*Senior Manager - Infrastructure and Administration*

35. **Mr. Azreen Shafeek**  
*Senior Manager - Treasury*
36. **Mr. Dimuth Sigera**  
*Senior Manager - Business Banking*
37. **Mr. Chamila Sumathiratne**  
*Senior Manager - Compliance and Financial Reporting*
38. **Mr. Dinesh Thomas**  
*Senior Manager - Business Solutions*
39. **Mr. Deepa Wickramasinghe**  
*Senior Manager - NL Credit Risk*



# Service Network

## HEAD OFFICE AND CORPORATE BRANCH

Nations Trust Bank PLC, No. 242, Union Place, Colombo 2, Sri Lanka

Call Centre: 4711411 Fax: 4313198 E-mail: info@nationstrust.com Website: www.nationstrust.com

## BRANCHES

### Bandarawela

No. 326, Badulla Road, Bandarawela

### Battaramulla

No. 103 A, Pannipitiya Road, Battaramulla

### Borella

Keells Super, No. 85, Dr. N.M. Perera Mawatha, Colombo 8

### Cinnamon Gardens

No. 4A, Independence Avenue, Colombo 7

### City Office

No. 76, York Street, Colombo 1 (Adjoining Laksala)

### Colpetty

No. 464, Galle Road, Colombo 3

### Corporate Branch

No. 242, Union Place, Colombo 2 (Adjoining JAIC Hilton)

### Crescat

G9, No. 77, Crescat Boulevard, Galle Road, Colombo 3

### Dehiwala

No. 163, Galle Road, Dehiwala

### Galle

No. 16, Matara Road, Galle

### Gampaha

No. 16/1, Courts Road, Gampaha

### Havelock

No. 100, Havelock Road, Colombo 5 (Opposite Police Park)

### Homagama

No. 113A, High Level Road, Homagama

### Kadawatha

No. 25, Kandy Road, Kadawatha

### Kandy

No. 147, Kotugodella Veediya, Kandy

### Kiribathgoda

No. 94, Makola Road, Kiribathgoda

### Kohuwala

No. 96, Dutugamunu Street, Kohuwala

### Kotahena

No. 200, George R. De Silva Mawatha, Colombo 13

### Kurunegala

No. 37, Puttalam Road, Kurunegala

### Liberty Plaza

Keells Super, B2, Liberty Plaza, R.A. De Mel Mawatha, Colombo 3

### Mahabage

No. 590, Negombo Road, Mahabage

### Maharagama

No. 129, High Level Road, Maharagama

### Matara

No. 56, Esplanade Road, Matara

### Millennium Branch

No. 46/58, Nawam Mawatha, Colombo 2

### Moratuwa

No. 89, New Galle Road, Moratuwa

### Mount Lavinia

No. 269, Galle Road, Mount Lavinia

### Nawala

No. 267A, Nawala Road, Nawala

### Negombo

No. 113A, Greens Road, Negombo

### Nugegoda

No. 128, High Level Road, Nugegoda

### Panadura

No. 229, Galle Road, Panadura

### Peradeniya

No. 903/18, Royal Mall Complex, William Gopallawa Mawatha, Kandy

### Pettah

No. 244, Main Street, Pettah

### Sri Sangaraja Mawatha

No. 545A, Sri Sangaraja Mawatha, Colombo 10

### Thalawatugoda

No. 755, Madiwela Road, Thalawatugoda

### Ward Place - Inner Circle Center

ODEL, No. 10, Ward Place, Colombo 7

### Wattala

No. 492, Negombo Road, Wattala

### Wellawatte

No. 292, Galle Road, Wellawatte

## LEASING CENTRES LOCATED OUTSIDE BRANCHES

### Kuliyaipitiya

No. 72A, Hettipola Road, Kuliyaipitiya

### Negombo

No. 450, Main Street, Negombo

## OFF SITE ATMS

- > Asiri Hospital, No. 181, Kirula Road, Narahenpita
- > Asiri Surgical, No. 21, Kirimandala Mawatha, Narahenpita
- > John Keells, No. 130, Glennie Street, Colombo 2
- > Processing Centre, No. 256, Sri Ramanathan Mawatha, Kotahena, Colombo 15

## PERSONAL BANKING CENTRES

### Kandana

Keells Super, No. 176, Negombo Road, Nagoda, Kandana

### Kurunegala

Keells Super, No. 138, Colombo Road, Kurunegala

### Mount Lavinia

Keells Super, No. 388, Galle Road, Mount Lavinia

### Negombo

Keells Super, No. 41, Archbishop Nicholas Marcus Fernando Mawatha, Negombo

### Peliyagoda

Keells Super, No. 407/A, Kandy Road, Peliyagoda

### Wattala

Keells Super, No. 385, Negombo Road, Wattala

# Report of the Board Audit Review Committee

The Board Audit Review Committee (BARC) is appointed by the Board of Directors and comprises five Non-Executive Directors. The BARC has been reconstituted to comprise three Non-Executive Directors with effect from 1st January 2009. The Head of Internal Audit performs the role of Secretary to the Committee. The Director/Chief Executive Officer and the Deputy Chief Executive Officer attend the meetings by invitation. Other members of the Corporate Management attend as and when required.

## FUNCTIONS OF THE COMMITTEE

The Committee independently examines and evaluates the activities of the Bank. It advises all levels of management and the Board of Directors on the Bank's system of internal controls and on management of risk. As and when required, it requests additional information from management in order to satisfy itself of the adequacy of the controls in place.

The minutes of Committee meetings are submitted for review to the Board of Directors. The Head of Internal Audit reports directly to the Chairman of the Committee, a practice that strengthens the independence of the position.

The role of the Board Audit Review Committee is:

1. To monitor the implementation of policies and strategies approved by the Board of Directors.
2. To evaluate the extent to which corporate objectives are achieved and to provide assurance to the Board that regulatory and statutory requirements have been adhered to.
3. Oversight of the presentation and adequacy of the disclosure in the Financial Statements of the Bank, in accordance with the Sri Lanka Accounting Standards.
4. To ensure that risks are identified and managed through an adequate, effective and efficient system of internal controls and procedures.
5. To make recommendations to the Board pertaining to the appointment, reappointment and removal of the External Auditors and to approve the remuneration and terms of engagement of the External Auditors.

## ACTIVITIES OF THE COMMITTEE

During the year under review, the Committee met nine times and reviewed the internal audit reports on the Bank and its subsidiaries.

During the year, the Committee also:

- Reviewed forty-nine audit reports relating to branches, personal banking centres and the leasing branches;
- Reviewed forty-four departmental, process audit and investigation reports;
- Paid special attention to the adequacy of procedures and effectiveness of internal controls, recommended corrective action whenever necessary;
- Reviewed decisions taken by the Assets and Liabilities Committee (ALCO) of the Bank to ensure compliance with the risk management policies laid down by the Board;
- Reviewed the adequacy of the insurance cover of the various policies in force;
- Monitored Treasury activities and the customer-asset portfolio to ensure that credit quality and the inherent risks were addressed, with specific attention to ensure that preventive action was taken to minimise possible losses;
- Reviewed the control processes pertaining to the Central Operations, Finance, Credit Cards, Loan Processing and IT area and proposed modifications to be made in order to ensure that industry best practices were adopted;
- Reviewed and monitored the progress of the implementation of the IT audit recommendations;
- Discussed issues arising from the reports with the External Auditors, who attend Committee meetings by invitation;
- Reviewed the management letter sent by the Auditors and management's response thereto;
- Met with the External Auditors in the closed sessions of the BARC meetings thereby providing them with an opportunity to express their views independent of the Bank's management;
- Monitored compliance with requirements laid down by the regulatory authorities;
- Requested key business heads to present an overview of their area of control, with special emphasis on risk control and adopting audit recommendations;
- Ratified the quarterly Financial Statements prior to publication and submission to the Central Bank, the Colombo Stock Exchange and shareholders; and
- Reviewed and submitted the Internal Audit Manual for approval of the Board of Directors.

The Board Audit Review Committee is of the view that adequate internal controls and procedures are in place at the Bank and its subsidiaries to provide reasonable assurance that its assets are safeguarded and financial stability maintained. The Board Audit Review Committee has recommended to the Board of Directors that Messrs Ernst & Young be reappointed as Auditors for the financial year ending 31st December 2009 at the next Annual General Meeting.

**A.R. Rasiah**

*Chairman*

Board Audit Review Committee

17th February 2009

# Human Resources and Remuneration Committee Report

During the year under review, the Human Resources and Remuneration Committee comprised of 4 Non-Executive Directors namely Mr. A.D. Gunewardene (Chairman), Mr. E.H. Wijenaik, Mr. A.R. Rasiah and Dr. (Ms.) D. Weerakoon and with effect from 1st January 2009 the Committee was reconstituted to comprise of 3 Non-Executive Directors. The Committee held 3 meetings during the year. The Chief Executive Officer (CEO) of the Bank was present at all the meetings of the Committee as an invitee, except when matters relating to the CEO were being discussed.

The Committee adopted a Human Resources and Remuneration Committee Charter during the year. This Charter sets out the scope of the Committee and its operating practices.

The objectives of the Committee are:

- To assist the Board of Directors in formulating and establishing a set of comprehensive remuneration policies and practices within the Bank.
- To review and recommend to the Board, appropriate remuneration policies for the CEO, Executive Director and Key Management Personnel of the Bank.
- To recommend to the Board, objectives and targets to be set for the CEO, Executive Director and Key Management Personnel of the Bank.
- To evaluate the performance of the CEO, Executive Director and Key Management Personnel of the Bank, against the agreed objectives and targets and make suitable recommendations to the Board.

In order to achieve the above objectives, the Committee has been adopting the following as its guiding principles:

- Ensuring that the shareholder and employee interests are aligned
- Setting base pay and total remuneration at a level that can attract, motivate and retain high quality staff talent
- Regular remuneration surveys to ensure that remuneration is linked to market
- Setting remuneration levels in such a manner that a significant portion of the remuneration is linked to performance
- Setting up a framework of regular performance appraisals to enable the staff to obtain feedback from their superiors in furtherance of achieving their objectives and targets

In its deliberations, the Committee has been keen to ensure that the compensation and benefits structure of the Bank harmonises and strengthens the performance driven culture of the Bank. The Committee is confident that the 'Pay for Performance' mindset has been inculcated in the staff of the Bank.

An important tool in the 'Pay for Performance' scheme has been the formulation of the variable bonus pool. The size of the bonus pool is determined by the Bank achieving pre-agreed targets. The Committee annually revises the criteria for achieving the bonus pool in order to

ensure that risk and reward is aligned and also that the medium-term objectives of the Bank are taken into account when achieving that year's targets. The distribution of the bonus pool is dependent upon the ratings achieved by the staff during the year-end performance appraisal.

During the year, the Bank engaged the services of an external consulting firm to carry out a remuneration survey. The results of this survey will be used in formulating staff remuneration for year 2009.

Also during the year, the Bank engaged the services of an external consulting firm in carrying out an employee attitude survey. The results of this survey were encouraging and there was improvement in almost all the criteria as compared to the previous survey results of 2005.

**A.D. Gunewardene**

*Chairman*

Human Resources and Remuneration Committee

17th February 2009

# Annual Report of the Board of Directors on the Affairs of the Company

The details set out herein provide the pertinent information required by the Companies Act No. 7 of 2007, the Listing Rules of the Colombo Stock Exchange and are guided by recommended best accounting practices.

## GENERAL

The Directors have pleasure in presenting to the members their Report together with the audited Financial Statements of Nations Trust Bank PLC, a public limited liability company incorporated in Sri Lanka on 21st January 1999 under the Companies Act No. 17 of 1982, quoted in the Colombo Stock Exchange in May 1999 and a licensed commercial bank under the Banking Act No. 30 of 1988, for the year ended 31st December 2008.

The Company was re-registered on 14th February 2008 as required under the provisions of the Companies Act No. 7 of 2007.

The Annual Report of the Board of Directors and the Audited Financial Statements were approved by the Directors on 17th February 2009.

## STATEMENT OF COMPLIANCE ON THE CONTENT OF THE ANNUAL REPORT

The Audited Financial Statements included in this Annual Report have been prepared and presented with the disclosures in accordance with the Sri Lanka Accounting Standards and other applicable regulatory requirements.

## PRINCIPAL ACTIVITIES

Nations Trust Bank PLC is a Banking Company licensed as a commercial bank. There are four fully owned subsidiaries of Nations Trust Bank PLC which together constitute the Group. The principal activities of the Bank are commercial, personal and private banking, trade

services, leasing, factoring, treasury and capital market services and fee based activities. The principal activities of the Bank's subsidiaries viz. Waldock Mackenzie Limited, Allied Properties Limited, Mercantile Leasing (Financial Services) Limited and Nations Insurance Brokers Limited are carrying out money market operations and fund and fee based activities, property rental, managing an operating leases portfolio and insurance broking respectively. There has been no material change to the activities of the Company or any of the subsidiaries during the period under review.

Mercantile Leasing (Financial Services) Limited, continued to scale down its operations and is likely to be wound up during 2009.

## FINANCIAL STATEMENTS

Financial Statements of the Company and the Group are given on pages 76 to 106 of this Annual Report.

## AUDITOR'S REPORT

Auditor's Report on the Financial Statements is given on Page 75.

## SIGNIFICANT ACCOUNTING POLICIES

The Accounting Policies adopted in the preparation of the Financial Statements are given from pages 80 to 88. There has been no change in the Accounting Policies adopted by the Company during the period under review, other than that indicated in Note No. 2.11.3 to the Financial Statement.

## INTERESTS REGISTER

All Directors have made general declarations as provided for in Section 192 (2) of the Companies Act No. 7 of 2007. Arising from these, details of contracts in which they have an interest are given on pages 68 and 70 to 72 of this Report. The share ownership of Directors is given below. Entries relating to the following were made

in the Interests Register during the year under review:

1. Purchase of 'Rights' under the Banks rights issue through the Colombo Stock Exchange by Mr. A.D. Gunewardene - on 1st February 2008.
2. Allotment of shares to Messrs A.D. Gunewardene, E.H. Wijenaik, A.K. Gunaratna, C.H.S.K. Piyaaratna and Z.H. Zavahir under the Bank's rights issue - on 27th February 2008.
3. Sale of shares by Mr. A.D. Gunewardene through the Colombo Stock Exchange - on 18th November 2008.
4. Approval of remuneration to Executive Directors by the Board - on 27th March 2008.
5. Approval of Directors fees to non-executive Directors by the Board - on 18th December 2008.

## DIRECTORS' SHAREHOLDINGS

Directors' shareholdings as at 31st December 2008 and 2007 are given below:

Name of Director	No. of Shares	
	2008	2007
Mr. A.D. Gunewardene	3,253,667	1,166,111
Mr. E.H. Wijenaik	15,414	11,561
Mr. S.C. Ratnayake	-	-
Mr. J.R.F. Peiris	-	-
Mr. A.K. Gunaratne	14,133	10,600
Mr. A.R. Rasiah	16,304	16,304
Dr. (Ms.) D. Weerakoon	-	-
Mr. M.E. Wickremesinghe	-	-
Mr. Z.H. Zavahir	254,000	190,500
Mr. C.H.S.K. Piyaaratna	67,066	50,300

Includes the shares held by the spouses and dependent children of the Directors.

## DIRECTORS' REMUNERATION

Details of Directors' fees and emoluments paid during the year are as follows:

	Bank (Rs. mn)	Group (Rs. mn)
Directors' Fees and		
Emoluments	34.018	37.354



## CORPORATE DONATIONS

Donations by the Company during the year amounted to Rs. 1,000,000/-. This comprised of donations to the John Keells Social Responsibility Foundation.

## DIRECTORATE

Directors of the Bank as at the end of the accounting period, their position and the number of Board meetings attended/ number of Board meetings held during the year are given below:

### Non-Executive Directors

Mr. A.D. Gunewardene - Chairman	12/12
Mr. E.H. Wijenaike - Deputy Chairman	11/12
Mr. S.C. Ratnayake	11/12
Mr. J.R.F. Peiris	12/12
Mr. A.K. Gunaratne	12/12

### Independent Non-Executive Directors

Mr. A.R. Rasiah - Senior Director	12/12
Dr. (Ms.) D. Weerakoon	12/12
Mr. M.E. Wickremesinghe	12/12

### Executive Directors

Mr. Z.H. Zahir - CEO	12/12
Mr. C.H.S.K. Piyaratna	10/12

Mr. A.R. Rasiah being an Independent Director has been designated as the Senior Director in terms of Direction No. 3 (5) (ii) of the Banking Act Direction No. 11 of 2007 (on Corporate Governance).

Messrs S.C. Ratnayake, J.R.F. Peiris and C.H.S.K. Piyaratna retire by rotation as provided for in the Articles of Association of the Company and are recommended for re-election by the shareholders.

Having given due consideration to the criterion set out in the Banking Act No. 30 of 1988 and Banking Act Direction No. 11 of 2007, Board is of the view that all Directors of the Bank including those who are recommended for re-election are fit and proper persons to hold office as Directors of the Bank.

No Director ceased to hold office during the accounting period under review.

## AUDITORS

Company's Auditors during the period under review were Messrs Ernst & Young, Chartered Accountants. Amounts paid and payable by the Bank to Messrs Ernst & Young and charged against income as audit fees and fees for other services are as follows:

	Bank (Rs. mn)	Group (Rs. mn)
Audit Fees	2.779	4.140
Fees for Other Services	1.721	2.355

Other services consisted of tax related work.

As far as the Directors are aware the Auditors do not have any relationship with or interest in the Company or any of its subsidiaries other than those disclosed above.

## RESULTS AND DIVIDENDS

Consolidated Income Statement along with the Company's Income Statement for the year are given on page 77. Group Balance Sheet is given on page 76.

Having satisfied the solvency test requirement under the Companies Act No. 7 of 2007 the Directors recommend a first and final dividend of Rs. 1.50 Per Share to the holders of ordinary shares of the Company registered on the books of the Company as at end of 30th March 2009.

## INFORMATION ON SHARES, WARRANTS AND DEBENTURES

Information relating to holdings of shares, warrants and debentures is given in pages 107-112 of this Report.

## EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

No circumstances have arisen since the Balance Sheet date that would require adjustment or disclosure other than those disclosed in Note 33 to the Financial Statements contained on page 106.

## CAPITAL ADEQUACY

The Group's capital adequacy ratios as at 31st December 2008 were 10.31% for Tier I and 15.70% for Tier I & II and are above the minimum requirements of the Central Bank of Sri Lanka of 5% and 10% respectively.

## REPORT ON COMPLIANCE WITH PRUDENTIAL REQUIREMENTS, REGULATIONS, LAWS AND INTERNAL CONTROLS

The Bank has complied with all the regulatory and prudential requirements arising from the provisions in the statutes applicable to the Bank such as the Banking Act No. 30 of 1988, directions and determinations issued by the Central Bank of Sri Lanka under the Banking Act, Monetary Law Act (MLA) No. 58 of 1949, Exchange Control Act No. 24 of 1953, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Prevention of Money Laundering Act No. 5 of 2006, Financial Transactions Reporting Act No. 6 of 2006, Convention on the Suppression of Terrorist Financing Act No. 25 of 2005, Inland Revenue Act No. 10 of 2006, Value Added Tax No. 14 of 2002, Finance Act No. 5 of 2005, Economic Service Charge Act No. 13 of 2006, Listing Rules of the Colombo Stock Exchange, Securities and Exchange Commission Act No. 36 of 1987, Exchange Control Act No. 24 of 1953, Finance Leasing Act No. 56 of 2000, Payment of Gratuity Act No. 12 of 1983, Employees' Provident Fund Act No. 15 of 1958, Employees' Trust Fund Act No. 46 of 1980, etc. and amendments to such statutes.

The Bank has established and maintained an effective system of internal controls which is improved on a continuous basis based on the recommendations of Internal Audit Department and the observations of the Central Bank of Sri Lanka and the External Auditors during their inspections and audits.

## TRANSACTIONS WITH RELATED PARTIES

Details of significant related party transactions are given in the table below:

Category of Related Parties	Subsidiary Companies*		Directors of the Bank		Key Management Personnel (KMP) of the Bank**		Close Relations of Directors and KMP		Shareholders owning a Material Interest in the Bank***		Concerns in which Directors, close Relations of Directors or Material Shareholders have a Substantial Interest	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Balance Sheet</b>												
<b>Assets</b>												
Accommodation												
Loans and Advances	5,962	34,344	2,447	2,838	52,061	43,210	1,048	2,657	50,014	117	3,698	448
Credit Cards	–	–	2,025	2,168	2,045	1,297	–	–	135	131	–	–
Investments in Corporate Debts and												
Government Securities	8,780,484	6,438,422	–	5,153	507	–	–	–	–	100,000	–	–
Other Assets	597,357	252,178	–	–	–	–	–	–	–	–	–	–
Total Accommodation	9,383,802	6,724,943	4,472	10,159	55,153	44,507	1,048	2,657	50,149	100,249	3,698	448
Less: Cash Collateral	–	–	8,946	10,911	13,869	14,696	2,000	2,000	300,000	300,000	16,403	13,500
Inv. made in the Bank's Equity and Debt Instruments	–	–	–	–	–	–	–	–	1,595,935	1,070,875	–	–
Total Net Accommodation	9,383,802	6,724,943	Nil	Nil	41,285	29,810	Nil	657	Nil	Nil	Nil	Nil
<b>Liabilities</b>												
Deposits	5,759	865	17,239	16,613	38,093	31,185	6,731	7,550	2,924,572	1,326,432	21,144	23,778
Borrowings	2,314,063	2,347,285	10,076	10,296	13,553	10,015	–	–	3,346,006	453,028	–	–
Other Liabilities	135,479	120,488	–	–	–	–	–	–	–	–	–	–
<b>Equity</b>												
Dividends Paid (Net)	–	–	3,232	1,201	84	158	63	47	75,607	56,490	–	–
Issue of Bonus Shares	–	9,500	–	–	–	–	–	–	–	–	–	–
<b>Off-Balance Sheet</b>												
Undrawn Facilities	–	–	2,680	7,976	10,402	12,570	340	90	202,905	2,868	8,602	–
Guarantees/Collateral Given	–	50	–	–	–	–	–	–	27,727	5,399	3,473	1,552
<b>Income Statement</b>												
Interest Income	907,487	576,402	397	474	3,983	1,467	328	442	27,751	48,040	545	483
Interest Paid	251,555	488,534	2,691	2,472	3,411	2,882	943	862	537,247	421,500	2,946	2,059
Other Income Earned	6,146	5,395	8	4	28	9	3	1	302	152	377	357
Dividends Received (Net)	37,800	186,000	–	–	–	–	–	–	–	–	–	–
Expenses Paid	13,060	9,351	–	–	–	–	–	–	14,642	21,362	2,518	1,743
Provision for Investments and												
Against Receivables	12,421	18,496	–	–	–	–	–	–	–	–	–	–
<b>Compensation Paid:</b>												
Emoluments/Fees	–	–	34,018	25,265	90,505	72,535	–	–	–	–	–	–
Post-Employment Benefits	–	–	1,160	1,094	3,813	2,751	–	–	–	–	–	–
No. of Shares of the Bank Bought	–	–	2,185,513	116,300	19,833	3,000	17,397	–	–	–	–	–
No. of Shares of the Bank Sold	–	–	26,000	–	–	150,000	–	–	–	–	–	–

\* Subsidiaries of the Group include Waddock Mackenzie Limited, Allied Properties Limited, Nations Insurance Brokers Limited and Mercantile Leasing (Financial Services) Limited.

\*\* KMPs include only the members of Corporate Management.

\*\*\* Since John Keells Holdings PLC together with Mackinnon & Keells Financial Services Limited and Central Finance Company PLC together with CF Growth Fund Limited and CF Insurance Brokers Limited hold material interest in the Bank transactions with these companies have been disclosed.

The Group does not have Associate Companies.

## DIRECTORS OF THE SUBSIDIARIES

### Allied Properties Limited

A.D. Gunewardene - *Chairman*

E.H. Wijenaïke

Z.H. Zavahir

### Nations Insurance Brokers Limited

Z.H. Zavahir - *Chairman*

C.H.S.K. Piyaratna

T.M.I. Ahamed

### Mercantile Leasing (Financial Services) Limited

A.D. Gunewardene - *Chairman*

E.H. Wijenaïke

Z.H. Zavahir

### Waldock Mackenzie Limited

A.D. Gunewardene - *Chairman*

E.H. Wijenaïke

Z.H. Zavahir

T.M.I. Ahamed

## GOING CONCERN

Directors after making necessary inquiries have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Therefore, the going concern basis has been adopted in the preparation of the Financial Statements.

## ANNUAL GENERAL MEETING

Annual General Meeting of the Company will be held at the Auditorium of the Institute of Chartered Accountants of Sri Lanka at No. 30A, Malalasekara Mawatha Colombo 7 on 30th March 2009 at 10.00 a.m.



**Ajit Gunewardene**  
*Chairman*



**Zulfiqar Zavahir**  
*Director/CEO*



**Theja Silva**  
*Company Secretary*

Colombo,  
17th February 2009

## Directors' Interests In Contracts with the Bank

The Bank carried out transactions in the ordinary course of its business at commercial rates with the following Director-related entities;

### Details of transactions carried out with Director-related entities during the year 2008

Name of Related Party	Name of Director	Relationship	Details	Amount Outstanding as at 31.12.2008 (Rs.)
Central Finance Co. PLC	E.H. Wijenaike	Managing Director	A sum of Rs. 14,426,603/- was paid in respect of operating leases for cars and car purchases.	Nil
	A.K. Gunaratne	Director	A sum of Rs. 14,767,700/- was received as interest income & other income.	
			A sum of Rs. 46,297,450/- was paid as interest expense.	
John Keells Office Automation (Pvt) Limited	A.D. Gunewardene	Chairman	A sum of Rs. 7,653,920/- was paid for the purchase of office equipment, stationery and service maintenance	Nil
	J.R.F. Peiris	Director	A sum of Rs. 1,757,883/- was received as interest and other income.	
			A sum of Rs. 5,297,621/- was paid as interest expenses.	
John Keells Holdings PLC	S.C. Ratnayake	Chairman	A sum of Rs. 215,156/- was paid as advisory charges.	Nil
	A.D. Gunewardene	Deputy Chairman	A sum of Rs. 13,273,895/- was received as interest income.	
	J.R.F. Peiris	Director	A sum of Rs. 481,546,043/- was paid as interest expenses.	
Mackinnons American Express Travel (Pvt) Limited	S.C. Ratnayake	Chairman	A sum of Rs. 823,044/- was paid for air travel.	Nil
			A sum of Rs. 22,368/- was received as other income.	
D.H.L. Keells (Pvt) Limited	S.C. Ratnayake	Chairman	A sum of Rs. 716,661/- was paid as courier charges.	Nil
			A sum of Rs. 20,500/- was received as interest and other income.	
Jaykay Marketing Services (Pvt) Limited	S.C. Ratnayake	Chairman	A sum of Rs. 4,623,452/- was incurred as rental payments, electricity charges and cost of gift vouchers.	280,000
	J.R.F. Peiris	Director		
Odel (Pvt) Limited	A.D. Gunewardene	Chairman	A sum of Rs. 2,517,710/- was incurred as advertisement, rental and other utility charges.	113,850
			A sum of Rs. 4,000/- was received as interest and other income.	
Asian Hotels & Properties PLC	S.C. Ratnayake	Chairman	A sum of Rs. 3,622,851/- was incurred as rental and other utility charges.	632,367
	A.D. Gunewardene	Managing Director		
	J.R.F. Peiris	Director	A sum of Rs. 1,061,213/- was received as interest and other income	
Ceylon Holiday Resorts Limited	S.C. Ratnayake	Chairman	A sum of Rs. 120,613/- was paid as interest expenses.	Nil
	A.D. Gunewardene	Director	A sum of Rs. 344,674/- was received as interest and other income.	
	J.R.F. Peiris	Director		
Mackinnon and Keells Financial Services Limited	S.C. Ratnayake	Chairman	A sum of Rs. 9,403,267/- was paid as interest expenses.	Nil
	A.D. Gunewardene	Director		
	J.R.F. Peiris	Director		
C.F Insurance Brokers (Pvt) Limited	E.H. Wijenaike	Director	A sum of Rs. 10,855/- was received as interest and other income.	Nil
Habarana Walk Inn Limited	S.C. Ratnayake	Chairman	A sum of Rs. 3,127/- was received as other income.	
	A.D. Gunewardene	Director		
	J.R.F. Peiris	Director		

Name of Related Party	Name of Director	Relationship	Details	Amount Outstanding as at 31.12.2008 (Rs.)
Rajawella Hotels Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	A sum of Rs. 392,973/- was paid as refreshments and sponsorships.	Nil
Walkers Tours Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	A sum of Rs. 343,000/- was paid as advertising, rental and other utility charges.	Nil
Trans Asia PLC	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	A sum of Rs. 2,356,615/- was paid for conference room charges and customer entertainment.	Nil
Waldock Mackenzie Limited	A.D. Gunewardene E.H. Wijenaïke Z.H. Zavahir	Chairman Director Director	A sum of Rs. 236,965,562/- was paid as interest expenses. A sum of Rs. 904,069,730/- was received as interest income	Nil
Allied Properties Limited	A.D. Gunewardene E.H. Wijenaïke Z.H. Zavahir	Chairman Director Director	A sum of Rs. 13,060,196/- was paid as rent, utility expenses, and for refurbishing work. Reimbursement of expenses amounting to Rs. 1,840,560/- was received. Interest paid amounted to Rs. 14,589,759/-. Deposit for rentals amounts to Rs. 5,922,000/-	Nil
Nations Insurance Brokers Limited	Z.H. Zavahir C.S.H.K. Piyaratna	Chairman Director	A sum of Rs. 3,617,760/- was received as reimbursement of expenses. A sum of Rs. 2,479,633/- was paid as interest expenses.	Nil
Mercantile Leasing (Financial Services) Limited	A.D. Gunewardene E.H. Wijenaïke Z.H. Zavahir	Chairman Director Director	A sum of Rs. 738,960/- was received as reimbursement of expenses. A sum of Rs. 3,415,704/- was received as interest income.	Nil
Cinnamon Hotels & Resorts (Pvt) Limited	A.D. Gunewardene S.C. Ratnayake	Chairman	A sum of Rs. 2,533,120/- was paid for seminar charges and sponsorship.	Nil
Union Assurance PLC	A.D. Gunewardene J.R.F. Peiris	Chairman Director	A sum of Rs. 1,669,793/- was paid as insurance premia. A sum of Rs. 1,030,050/- was paid as interest expenses. A sum of Rs. 42,274/- was received as interest and other income.	Nil
John Keells Social Responsibility Foundation	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	A sum of Rs. 1,000,000/- was made as donations.	Nil

**Details of Accommodation granted and Balances outstanding as at 31st December 2008.**

Name of Related Party	Name of Director	Relationship	Accommodation Granted	Limit (Rs.)	Balance Outstanding 31.12.2008 (Rs.)
Central Finance Co. PLC	E.H. Wijenaike A.K. Gunaratne	Managing Director Director	Working Capital Financing Trade Finance Loans	350,000,000 Sub Limit	50,713,730 27,726,639
Central Industries PLC	E.H. Wijenaike A.K. Gunaratne	Director Director	Trade Finance Facilities	140,000,000	44,045,396
John Keells Office Automation (Pvt) Limited	A.D. Gunewardene J.R.F. Peiris	Chairman Director	Working Capital Financing Trade Finance Facilities	140,000,000 Sub Limit	7,058,573 107,871,038
D.H.L. Keells (Pvt) Limited	S.C. Ratnayake	Chairman	Trade Finance Facilities	1,000,000	1,000,000
Ceylon Cold Stores PLC	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris A.R. Rasiah	Chairman Director Director Director	Working Capital Financing Trade Finance Facilities	290,000,000 Sub Limit	39,184,088 41,050,666
Whitall Boustead Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	Trade Finance Facilities	819,000	409,230
Habarana Lodge Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	Working Capital Financing Finance Leases	6,000,000	150 1,956,561
Kandy Walk Inn Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	Working Capital Financing Finance Leases	40,000,000	4,653,349 1,956,561
Ceylon Holiday Resorts Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	Working Capital Financing Finance Leases	20,000,000	150 6,500,016
Trinco Walk Inn Limited	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Director Director	Finance Leases	-	1,873,572
John Keells Holdings PLC	S.C. Ratnayake A.D. Gunewardene J.R.F. Peiris	Chairman Deputy Chairman Director	Corporate Credit Card	3,000,000	135,006
Rajawella Holdings Limited	A.D. Gunewardene J.R.F. Peiris	Director Director	Working Capital Financing	-	274,391
Nexus Networks (Pvt) Limited	S.C. Ratnayake J.R.F. Peiris	Chairman Director	Working Capital Financing	-	250
Swiss Biogenics Limited	C.H.S.K. Piyaratna	Director	Working Capital Financing Trade Finance Facilities	218,000,000 Sub Limit	15,383,115 168,185,251
Hemas Holdings PLC	M.E. Wickremesinghe	Director	Trade Finance Facilities	70,000,000	695,000
Waldock Mackenzie Limited	A.D. Gunewardene E.H. Wijenaike Z.H. Zavahir	Chairman Director Director	Working Capital Financing	-	40,000



# Financial Reports

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## Directors' Responsibility for Financial Reporting

The responsibility of the Directors, in relation to the Financial Statements, is set out in the following statement. The responsibility of the Auditors, in relation to the Financial Statements, is set out in the Report of the Auditors on page 75 of the Report.

The Companies Act No. 7 of 2007, requires that the Directors prepare for each financial year and place before a General Meeting, Financial Statements comprising an Income Statement, which presents a true and fair view of the profit or loss of the Bank and its subsidiaries for the financial year and a Balance Sheet, which presents a true and fair view of the state of affairs of the Bank and its subsidiaries as at the end of the financial year.

The Directors are of the view that, in preparing these Financial Statements:

- i. the appropriate Accounting Policies have been selected and have been applied consistently. Material departures, if any, have been disclosed and explained;
- ii. all applicable Accounting Standards have been followed;
- iii. judgments and estimates have been made which are reasonable and prudent.

The Directors are also of the view that the Bank and its subsidiaries have adequate resources to continue in operation and have applied the going-concern basis in preparing these Financial Statements. Mercantile Leasing (Financial Services) Limited continued to scale down its operating leases business and it is likely that the Company will be wound up during the year 2009.

The Directors are responsible for ensuring that the Bank and its subsidiaries maintain sufficient accounting records to be able to disclose, with reasonable accuracy, the financial position of the entities and to be able to ensure that the Financial Statements of the Bank and its subsidiaries meet with the requirements of the Companies Act, the Banking Act and the Listing Rules of the Colombo Stock Exchange.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Bank and its subsidiaries and, in this regard, to give proper consideration to the establishment of appropriate internal control systems, with a view to preventing and for the detection of fraud and other irregularities.

The Directors are required to prepare Financial Statements and to provide the Auditors with every opportunity to take whatever steps and undertake whatever inspections they consider to be appropriate, for the purpose of enabling them to give their audit report.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

# Independent Auditors' Report



## Chartered Accountants

201 De Saram Place  
P.O. Box 101  
Colombo 10  
Sri Lanka

Tel : (0) 11 2463500  
Fax Gen : (0) 11 2697369  
Tax : (0) 11 5578180  
eysl@lk.ey.com

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONS TRUST BANK PLC

### Report on the Financial Statements

We have audited the accompanying Financial Statements of Nations Trust Bank PLC, the consolidated Financial Statements of the Bank and its subsidiaries, which comprise the Balance Sheets as at 31st December 2008, and the Income Statements, Statements of Changes in Equity and Cash Flow Statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Scope of Audit and Basis of Opinion*

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation.

We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

### *Opinion*

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year ended 31st December 2008 and the Financial Statements give a true and fair view of the Bank's state of affairs as at 31st December 2008 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated Financial Statements give a true and fair view of the state of affairs as at 31st December 2008 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Bank and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Bank.

### Report on Other Legal and Regulatory Requirements

In our opinion, these Financial Statements also comply with the requirements of Section 151 (2) and Sections 153 (2) to 153 (7) of the Companies Act No. 7 of 2007.

Colombo

17th February 2009

**Partners:** A D B Talwatte FCA FCMA T K Bandaranayake FCA M P D Cooray FCA FCMA Ms. Y A De Silva ACA W R H Fernando FCA FCMA  
W K B S P Fernando FCA ACMA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond)  
A S M Ismail FCA FCMA H M A Jayasinghe FCA FCMA Ms. G G S Manatunga ACA Ms. L C G Nanayakkara FCA FCMA B E Wijesuriya ACA ACMA

# Balance Sheet

As at 31st December		Bank			Group		
	Note	2008 Rs. '000	2007 Rs. '000	Change %	2008 Rs. '000	2007 Rs. '000	Change %
<b>ASSETS</b>							
Cash and Short-Term Funds	3	4,064,392	3,145,647	29	4,064,549	3,146,513	29
Statutory Deposit with the Central Bank of Sri Lanka	4	1,716,713	1,964,032	(13)	1,716,713	1,964,032	(13)
Government Treasury Bills and Bonds	5	11,279,414	7,368,493	53	14,338,832	11,330,683	27
Investments	6	3,780,957	2,392,434	58	3,780,957	2,392,434	58
Loans and Advances:							
Bills of Exchange	7.1	422,986	561,609	(25)	422,986	561,609	(25)
Loans and Advances	7.2	25,834,626	21,360,013	21	26,378,089	22,418,411	18
Lease Rentals Receivable within one year	7.3.1	3,374,219	2,434,931	39	3,374,483	2,437,753	38
Lease Rentals Receivable after one year	7.3.2	5,768,461	4,816,384	20	5,768,461	4,816,384	20
Corporate Debt Securities	7.4	3,927,573	3,288,632	19	3,996,366	4,265,741	(6)
Other Assets	8	2,318,601	1,301,343	78	1,777,635	1,209,330	47
Investments in Subsidiaries	9	678,710	678,710	–	–	–	–
Property, Plant & Equipment	10	1,475,399	482,677	206	2,034,621	1,065,426	91
Goodwill	11	–	–	–	79,261	79,261	–
<b>Total Assets</b>		<b>64,642,051</b>	<b>49,794,905</b>	<b>30</b>	<b>67,732,953</b>	<b>55,687,577</b>	<b>22</b>
<b>LIABILITIES</b>							
Deposits	12	34,146,500	28,665,757	19	34,146,474	28,665,757	19
Due to Banks		1,038,866	1,393,720	(25)	1,038,866	1,394,174	(25)
Borrowings	13	19,610,156	12,468,054	57	22,454,486	18,077,013	24
Other Liabilities	14	3,436,221	3,319,541	4	3,272,206	3,307,018	(1)
Deferred Liabilities	15	301,100	195,735	54	305,359	201,674	51
Debentures	16	1,500,000	500,000	200	1,500,000	500,000	200
Subordinated Loan	17	673,250	673,250	–	673,250	673,250	–
<b>Total Liabilities</b>		<b>60,706,093</b>	<b>47,216,057</b>	<b>29</b>	<b>63,390,641</b>	<b>52,818,886</b>	<b>20</b>
<b>SHAREHOLDERS' FUNDS</b>							
Stated Capital	18	3,109,771	2,061,554	51	3,109,771	2,061,554	51
Reserve Fund	19	80,509	56,679	42	80,509	56,679	42
Reserves	20	745,678	460,615	62	1,152,032	750,458	54
<b>Total Shareholders' Funds</b>		<b>3,935,958</b>	<b>2,578,848</b>	<b>53</b>	<b>4,342,312</b>	<b>2,868,691</b>	<b>51</b>
<b>Total Liabilities and Shareholders' Funds</b>		<b>64,642,051</b>	<b>49,794,905</b>	<b>30</b>	<b>67,732,953</b>	<b>55,687,577</b>	<b>22</b>
<b>Commitments and Contingencies</b>	21	<b>25,728,055</b>	<b>18,138,461</b>	<b>42</b>	<b>25,728,055</b>	<b>18,138,461</b>	<b>42</b>
Net Assets Value per Ordinary Share (Rs.)		<b>23.47</b>	<b>20.50</b>		<b>25.89</b>	<b>22.81</b>	

## Certification

These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.



**Raja Senanayake**  
Chief Financial Officer

The Notes to the Financial Statements from pages 80 to 106 form an integral part of these Financial Statements.

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Signed for and on behalf of the Board by:



**A.D. Gunewardene**  
Chairman



**E.H. Wijenaikie**  
Deputy Chairman



**Z.H. Zavahir**  
Director/CEO



**Theja Silva**  
Company Secretary

Colombo, 17th February 2009

# Income Statement

Year ended 31st December		Bank			Group		
	Note	2008 Rs. '000	2007 Rs. '000	Change %	2008 Rs. '000	2007 Rs. '000	Change %
<b>GROSS INCOME</b>	22	<b>11,965,448</b>	<b>8,378,535</b>	<b>43</b>	<b>13,877,449</b>	<b>9,341,912</b>	<b>49</b>
Interest Income	23	10,304,526	6,950,949	48	12,094,171	8,010,729	51
Interest Expense	24	(7,570,431)	(5,064,708)	49	(9,184,922)	(5,900,279)	56
<b>NET INTEREST INCOME</b>		<b>2,734,095</b>	<b>1,886,241</b>	<b>45</b>	<b>2,909,249</b>	<b>2,110,450</b>	<b>38</b>
Fees and Commission Income		302,153	279,509	8	338,249	307,019	10
Foreign Exchange Income		495,546	329,244	51	495,546	329,245	51
Other Operating Income	25	863,223	818,833	5	949,483	694,919	37
<b>NET INCOME</b>		<b>4,395,017</b>	<b>3,313,827</b>	<b>33</b>	<b>4,692,527</b>	<b>3,441,633</b>	<b>36</b>
<b>Less:</b>							
<b>Operating Expenses</b>							
Personnel Costs		1,135,762	815,356	39	1,159,683	831,276	40
Provision for Bad and Doubtful Debts		470,898	217,046	117	470,898	217,046	117
Other Fees and Charges		16,455	11,402	44	16,565	11,403	45
Provision for Staff Retirement Benefits		36,949	33,001	12	37,770	34,134	11
Premises, Equipment and Establishment Expenses		598,227	472,765	27	620,894	509,134	22
Other Operating Expenses		1,309,405	959,449	36	1,358,210	991,246	37
		<b>3,567,696</b>	<b>2,509,019</b>	<b>42</b>	<b>3,664,020</b>	<b>2,594,239</b>	<b>41</b>
<b>PROFIT BEFORE TAXATION</b>	26	<b>827,321</b>	<b>804,808</b>	<b>3</b>	<b>1,028,507</b>	<b>847,394</b>	<b>21</b>
Less: Provision for Taxation	27	(350,713)	(251,129)	40	(435,388)	(342,576)	27
<b>PROFIT AFTER TAXATION</b>		<b>476,608</b>	<b>553,679</b>	<b>(14)</b>	<b>593,119</b>	<b>504,818</b>	<b>17</b>
Earnings per Share - Basic (Rs.)	28				<b>3.67</b>	3.91	(6)
Dividend per Share (Rs.)	29	1.50	1.00		<b>1.50</b>	1.00	

The Notes to the Financial Statements from pages 80 to 106 form an integral part of these Financial Statements.

## Statement of Changes in Equity

	Note	Stated Capital Rs. '000	Capital Reserve Rs. '000	Reserve Fund Rs. '000	Revenue Reserve Rs. '000	Total Rs. '000
<b>BANK</b>						
Balance as at 31st December 2006		2,061,554	–	28,995	432,459	2,523,008
Provision for Goodwill	11	–	–	–	(372,053)	(372,053)
Dividend Paid for 2006		–	–	–	(125,786)	(125,786)
Profit for the Year		–	–	–	553,679	553,679
Transfers during the Year	20	–	–	27,684	(27,684)	–
Balance as at 31st December 2007		2,061,554	–	56,679	460,615	2,578,848
Rights Issue of Shares		1,048,217	–	–	–	1,048,217
Dividend Paid for 2007		–	–	–	(167,715)	(167,715)
Profit for the Year		–	–	–	476,608	476,608
Transfers during the Year	20	–	–	23,830	(23,830)	–
<b>Balance as at 31st December 2008</b>		<b>3,109,771</b>	<b>–</b>	<b>80,509</b>	<b>745,678</b>	<b>3,935,958</b>
<b>GROUP</b>						
Balance as at 31st December 2006		2,061,554	–	28,995	771,163	2,861,712
Provision for Goodwill	11	–	–	–	(372,053)	(372,053)
Dividend Paid for 2006		–	–	–	(125,786)	(125,786)
Profit for the Year		–	–	–	504,818	504,818
Transfers during the Year	20	–	–	27,684	(27,684)	–
Capitalisation of Reserves on the Issue of Bonus Shares by a Subsidiary		–	9,500	–	(9,500)	–
Balance as at 31st December 2007		2,061,554	9,500	56,679	740,958	2,868,691
Rights Issue of Shares		1,048,217	–	–	–	1,048,217
Dividend Paid for 2007		–	–	–	(167,715)	(167,715)
Profit for the Year		–	–	–	593,119	593,119
Transfers during the Year	20	–	–	23,830	(23,830)	–
<b>Balance as at 31st December 2008</b>		<b>3,109,771</b>	<b>9,500</b>	<b>80,509</b>	<b>1,142,532</b>	<b>4,342,312</b>

The Notes to the Financial Statements from pages 80 to 106 form an integral part of these Financial Statements.

# Cash Flow Statement

Year ended 31st December	Bank		Group	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Cash Flow from Operating Activities</b>				
Interest Received	10,386,373	6,867,180	12,286,198	7,959,222
Fees and Commission Received	302,153	279,509	385,581	306,910
Interest Paid	(7,303,444)	(4,971,483)	(8,793,415)	(5,708,481)
Foreign Exchange Income Received	495,546	329,245	495,546	329,245
Receipts from Other Operating Activities	863,223	818,833	919,185	691,972
Gratuity Payments Made	(5,766)	(4,268)	(5,766)	(4,268)
Payments to Employees and Suppliers	(2,855,970)	(2,093,434)	(2,935,054)	(2,166,198)
<b>Net Cash Flow from Operating Activities before Income Tax (A)</b>	<b>1,882,115</b>	<b>1,225,582</b>	<b>2,352,275</b>	<b>1,408,402</b>
Income Tax Paid	(291,643)	(288,361)	(398,364)	(370,270)
<b>Operating Profit before Changes in Operating Assets and Liabilities</b>	<b>1,590,472</b>	<b>937,221</b>	<b>1,953,911</b>	<b>1,038,132</b>
<b>(Increase)/Decrease in Operating Assets</b>				
Investments in Treasury Bills and Bonds	(4,018,781)	(1,744,687)	(3,268,743)	(2,862,522)
Money Market Investments and Sri Lanka Development Bonds	(1,388,544)	(769,562)	(1,388,544)	(769,562)
Corporate Debt Securities	(656,356)	(1,125,447)	294,515	60,417
Bills of Exchange	138,623	(487,305)	138,623	(487,305)
Loans and Advances	(6,793,427)	(5,979,547)	(6,278,492)	(5,979,545)
Other Assets	(1,017,261)	(220,172)	(731,750)	298,081
	(13,735,746)	(10,326,720)	(11,234,391)	(9,740,436)
<b>Increase/(Decrease) in Operating Liabilities</b>				
Customer Deposits	5,254,316	7,993,298	5,254,290	7,995,403
Securities Sold under Repurchase Agreements	6,033,409	1,184,422	6,906,003	1,054,333
Other Liabilities	78,813	983,887	(299,235)	550,638
	11,366,538	10,161,607	11,861,058	9,600,373
<b>Net Cash Flow from Operating Activities</b>	<b>(778,736)</b>	<b>772,108</b>	<b>2,580,578</b>	<b>898,070</b>
<b>Cash Flows from Investing Activities</b>				
Proceeds from Sale of Property, Plant & Equipment	9,694	13,064	18,290	32,165
Purchase of Property, Plant & Equipment	(1,193,872)	(156,286)	(1,195,362)	(158,068)
	(1,184,178)	(143,222)	(1,177,072)	(125,903)
<b>Cash Flows from Financing Activities</b>				
Proceeds from Rights Issue of Shares	1,048,217	–	1,048,217	–
Increase/(Decrease) in Refinance Activities	16,895	(1,799)	16,895	(1,799)
Increase/(Decrease) in Call and Other Borrowings	1,091,797	(1,742,839)	(2,274,878)	(1,886,500)
Issue/(Redemption) of Debentures	1,000,000	(60,000)	1,000,000	(60,000)
Dividend Paid	(167,715)	(125,786)	(167,715)	(125,786)
	2,989,194	(1,930,424)	(377,481)	(2,074,085)
<b>Net Increase in Cash and Cash Equivalents</b>	<b>1,026,280</b>	<b>(1,301,538)</b>	<b>1,026,025</b>	<b>(1,301,918)</b>
<b>Cash and Cash Equivalents at the beginning of the Year</b>	<b>3,715,959</b>	<b>5,017,497</b>	<b>3,716,370</b>	<b>5,018,288</b>
<b>Cash and Cash Equivalents at the end of the Year</b>	<b>4,742,239</b>	<b>3,715,959</b>	<b>4,742,395</b>	<b>3,716,370</b>
<b>Reconciliation of Cash and Cash Equivalents</b>				
Cash in Hand and Balances with Banks	748,657	656,529	748,813	656,940
Balance with the Central Bank of Sri Lanka	1,716,713	1,964,032	1,716,713	1,964,032
Money at Call and Short Notice	2,276,869	1,095,398	2,276,869	1,095,398
	4,742,239	3,715,959	4,742,395	3,716,370
<b>A. Reconciliation of Operating Profit:</b>				
Profit before Taxation	827,321	804,808	1,028,507	847,394
Depreciation	191,883	174,690	210,631	204,300
(Profit)/Loss on disposal of Property, Plant & Equipment	(425)	(9,151)	(2,752)	(11,101)
Provision for Doubtful Debts	470,898	217,046	470,898	217,046
Provision for Gratuity	36,949	33,001	37,770	34,134
(Increase)/Decrease in Interest Receivable	81,847	(83,769)	192,024	(62,017)
Increase/(Decrease) in Interest Payable	279,408	93,225	420,963	184,987
Other Debtors/Creditors	–	–	–	(2,073)
Gratuity Payments made	(5,766)	(4,268)	(5,766)	(4,268)
	1,882,115	1,225,582	2,352,275	1,408,402

The Notes to the Financial Statements from pages 80 to 106 form an integral part of these Financial Statements.

# Notes to the Financial Statements

## 1. CORPORATE INFORMATION

### 1.1 General

Nations Trust Bank PLC (the 'Bank') is a licensed commercial bank established under the Banking Act No. 30 of 1988. It is a public limited liability company, listed on the Colombo Stock Exchange, incorporated and domiciled in Sri Lanka. The registered office of the Bank is located at No. 242, Union Place, Colombo 2.

The Consolidated Financial Statements of Nations Trust Bank PLC for the year ended 31st December 2008 comprise of the Bank and its subsidiaries, Waldock Mackenzie Limited, Allied Properties Limited, Mercantile Leasing (Financial Services) Limited and Nations Insurance Brokers Limited (together referred to as the 'Group').

Nations Trust Bank PLC does not have an identifiable parent of its own.

The Financial Statements of Nations Trust Bank PLC, for the year ended 31st December 2008 were authorised for issue in accordance with the resolution of the Board of Directors on 17th February 2009.

### 1.2 Principal Activities and Nature of Operations

#### Bank

The Bank provides a comprehensive range of financial services encompassing personal, commercial, investment and private banking, trade services, leasing, factoring, treasury and capital market services.

#### Subsidiaries

The principal activities of the Bank's subsidiaries namely Waldock Mackenzie Limited, Allied Properties Limited, Mercantile Leasing (Financial Services) Limited and Nations Insurance Brokers Limited are carrying out money market operations and fund and fee based activities, property rental, managing an operating lease portfolio and insurance broking respectively.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation

The Financial Statements of the Bank and the Group have been prepared on a historical cost basis, except for Government Securities held for trading and certain land and

buildings that have been stated at valuation as explained in Accounting Policy No. 2.10.1 (b) and No. 2.10.6 (a) respectively to these Financial Statements. Assets and liabilities are grouped by nature and are listed in an order that reflect their relative liquidity.

No adjustments have been made for inflationary factors affecting these Financial Statements. These Financial Statements are prepared and presented in Sri Lankan Rupees.

The preparation and presentation of these Financial Statements is in compliance with the requirements of the Companies Act No. 7 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto.

#### 2.1.1 Statement of Compliance

The Financial Statements of the Bank and the Group have been prepared in accordance with the Sri Lanka Accounting Standards (SLAS).

#### 2.1.2 Prior year Figures and Phrases

Certain prior year figures and phrases are rearranged whenever necessary to conform to the current year's presentation.

### 2.2 Basis of Consolidation

- (a) The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries as at 31st December each year. The Financial Statements of the subsidiaries are prepared for the same reporting year as the Bank using consistent Accounting Policies.
- (b) All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets are eliminated in full.
- (c) Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.



# Notes to the Financial Statements

## 2.3 Changes in Accounting Policies

The Accounting Policies adopted are consistent with those used in the previous financial year except as follows:

The Group has adopted SLAS 16 on Employee Benefits (Revised 2006). This adoption did not have a significant impact on the Financial Statements [Refer Accounting Policy No. 2.11.3 (a)].

## 2.4 Significant Accounting Estimates and Assumptions

In the process of applying the Group's Accounting Policies, management is required to make estimates and assumptions that affect the amounts recognised in the Financial Statements. Use of available information and application of judgment are inherent in the formation of estimates. The Group believes its estimates for determining the valuation of its assets and liabilities are appropriate.

The following is a brief description of the Group's critical accounting estimates and assumptions:

### Losses for Loans and Advances

It is the Group's policy to establish, through charges against profits, specific and general provisions in respect of estimated and inherent credit losses in its portfolio.

### Impairment of Non-Financial Assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in Notes 2.10.7 and 2.10.8.

## 2.5 Foreign Currency Translation

The Consolidated Financial Statements are presented in Sri Lankan Rupees, which is the Bank's functional and presentation currency. All foreign exchange transactions

are converted to Sri Lankan Rupees, at the middle rate of exchange prevailing on the date the transactions were effected. Monetary assets and liabilities denominated in foreign currencies are translated to Sri Lankan Rupee equivalents using year-end middle foreign exchange rates. The resulting gains and losses are accounted for in the Income Statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated to Sri Lankan Rupees using the exchange rates as at the date of the initial transactions.

Forward exchange contracts are valued at the forward market rates ruling on the date of the Balance Sheet. Unrealised gains and losses are dealt with through the Income Statement.

## 2.6 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease trading.

## 2.7 Taxation

### (a) Income Tax

The provision for income tax is based on the elements of the income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act.

Income tax liabilities for the current period are measured at the amounts expected to be paid to the taxation authorities in accordance with the provisions of the Inland Revenue Act No. 10 of 2006. The tax rates applicable as of the Balance Sheet date are given below:

### Nations Trust Bank PLC

Income tax on profit from the Domestic Banking Unit and on-shore operations of the Foreign Currency Banking Unit is calculated at the rate of 35%, while tax on profits from the off-shore operations of the Foreign Currency Banking Unit is calculated at the rate of 20%.

### Subsidiary - Waldock Mackenzie Limited

Income tax on profit from operations is calculated at the rate of 35%.

# Notes to the Financial Statements

## **Subsidiary - Allied Properties Limited**

The Company enjoyed a tax holiday of 7 years which expired on 31st March 2007. Effective from 1st April 2007, the Company enjoys a concessionary tax rate of 2% on its turnover for a period of 15 years. Income tax has been provided at the rate of 35% on profits arising from other sources of income.

## **Subsidiary - Mercantile Leasing (Financial Services) Limited**

Income tax on profit from operations is calculated at the rate of 35%. Tax losses carried forward as at 31st December 2008 amounted to Rs. 44.245 mn, which can be carried forward indefinitely and can be set off against the taxable profits subject to the limit of 35% of the taxable profit in each year of assessment.

## **Subsidiary - Nations Insurance Brokers Limited**

Income tax on profit from operations is calculated at the rate of 35%.

### *(b) Deferred Income Tax*

Deferred income tax is provided using the liability method on temporary differences at the Balance Sheet date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- where the deferred income tax liability arises from initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from initial recognition of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither the accounting profit nor the taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each Balance Sheet date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or subsequently enacted as at the Balance Sheet date.

Deferred income tax assets relating to items recognised directly in equity is recognised in the Equity Statement and not in the Income Statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to setoff current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

### *(c) Value Added Tax*

#### **Nations Trust Bank PLC**

During the year, the Bank's total value addition was subjected to a 20% Value Added Tax on Financial Services as per Section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

# Notes to the Financial Statements

## Subsidiary - Waldock Mackenzie Limited

During the year, the Company's total value addition was subjected to a 20% Value Added Tax on Financial Services as per Section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

### (d) Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act No. 13 of 2006, ESC is payable on the liable turnover at specified rates. ESC paid is deductible from the income tax liability. Any unclaimed liability can be carried forward and set off against the income tax payable for a further four years.

### (e) Social Responsibility Levy (SRL)

As per the provisions of the Finance Act No. 5 of 2005, as amended by the Finance Act No. 11 of 2006, SRL was introduced with effect from 1st January 2005. SRL is payable at the rate of 1.5% on all taxes and levies chargeable as specified in the First Schedule of the Act.

## 2.8 Events After the Balance Sheet Date

All material events occurring after the Balance Sheet date are considered and appropriate adjustments and/or disclosures have been made in the Financial Statements, where necessary.

## 2.9 Hedging

The Bank uses derivative financial instruments such as interest rate swaps and foreign currency contracts to hedge its risks, associated with interest rate and exchange rate fluctuations. The net gains or losses on such derivative instruments are recognised in the Income Statement over the period of such contracts.

## 2.10 Valuation of Assets and Their Measurement Bases

### 2.10.1 Investments

#### (a) Treasury Bills and Bonds Held to Maturity

Investments in Treasury Bills and Bonds held to maturity are recorded at cost plus or minus a proportion of the discount or premium as the case may be on a straight-line basis over the period of maturity. Provision is made for diminution in value of these investments only if they are expected to be permanent.

#### (b) Treasury Bills and Bonds Held for Trading

Investments in Treasury Bills and Bonds held for trading are marked to market and carried at that value in the Balance Sheet. Gains and losses on marked to market valuation are dealt with through the Income Statement.

#### (c) Investment in Development Bonds and Other Securities

Securities, including Sri Lanka Development Bonds (SLDB) and other discountable securities are reflected at the purchased value by adjusting for discounts arising on acquisition. All other interest-bearing securities and investments in unquoted shares are stated at cost.

#### (d) Investments in Subsidiaries

Investments in subsidiaries are stated at cost in the Bank's Financial Statements in accordance with Sri Lanka Accounting Standard No. 26 on Consolidated and Separate Financial Statements.

### 2.10.2 Loans and Advances to Customers

(a) Loans and Advances to customers are stated in the Balance Sheet net of provisions for possible loan losses and net of interest, which is not accrued to revenue.

(b) Specific provisions for possible loan losses are made on the basis of a continuous review of all advances to customers, including consumer advances and credit cards.

The Bank's provisioning policy is more stringent than the guidelines issued by the Central Bank of Sri Lanka and at the minimum, not falling below the following. Accordingly, specific provisions have been made as follows:

Overdue Period	Provision Required
3-6 months	20%
6-12 months	50%
Over 12 months	100%

Specific provisions on credit cards are made on the basis of 50% when in arrears for 90 days and 100% when in arrears for 150 days.

# Notes to the Financial Statements

Specific provisions on personal loans are made on the basis of 50% when in arrears for 90 days and 100% when in arrears for 180 days.

- (c) A 1% general provision is maintained on all performing advances, in addition to the specific provisions made on non-performing advances to cover potential bad debts which are inherent in the loan portfolio but not yet identified. The provision is estimated after deducting facilities secured against cash. The Central Bank of Sri Lanka in their direction dated 21st November 2006, has made it mandatory that all banks make this provision, with time being given to build up the required provisions over 10 quarters, at the rate of 0.10% per quarter.

The Bank, however, is already fully compliant with this requirement, having provided the 1% general provision for all eligible advances.

## 2.10.3 Finance Leases

### (a) Lease Receivables

Assets leased to customers under agreements that transfer substantially all the risks and rewards associated with ownership other than legal title are accounted for as finance leases. Lease rentals receivable in the Balance Sheet represent total lease payments due net of unearned interest income not accrued to revenue, provision for bad and doubtful recoveries and the initial rentals received.

### (b) Provision for Lease Receivables

Specific provision has been made in relation to identified bad and doubtful leases on the following basis which is in line with the directions issued by the Central Bank of Sri Lanka:

Overdue Period	Provision Required
6-12 months	20%
12-18 months	50%
Over 18 months	100%

A general provision for possible losses on lease receivables is made at 1% of the total capital outstanding of the performing leases.

## 2.10.4 Advances to Margin Trading Customers

Advances to margin trading customers are stated in the Balance Sheet net of provisions for possible loan losses and net of interest, which is not accrued to revenue.

## 2.10.5 Reverse Repurchase Agreements

These are advances collateralised by purchase of securities by the Group from counterparties to whom the Group lent, subject to a commitment to resell them at a predetermined price. All reverse repurchase agreements involve debt instruments, such as Treasury Bills and Bonds and Corporate Papers.

In reverse repurchase agreements, the cash delivered is derecognised and a corresponding receivable, including accrued interest, is recorded recognising the right to receive it back. Interest earned on reverse repurchase agreements is recognised as interest income over the life of each agreement.

Additionally, the sale of securities received in reverse repurchase transactions triggers the recognition of a trading liability (short sale).

## 2.10.6 Property, Plant & Equipment

### (a) Cost and Valuation

All items of Property, Plant & Equipment are initially recorded at cost. Certain land and buildings are subsequently revalued. Subsequent to the initial recognition as an asset at cost, revalued assets are carried at revalued amounts less any accumulated depreciation on buildings and accumulated impairment losses recognised after the date of revaluation. All other Property, Plant & Equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided for, on the bases specified in (c) below.

### (b) Restoration Cost

Expenditure incurred on repairs or maintenance of Property, Plant & Equipment in order to restore or maintain the future economic benefits expected from the originally assessed standard of performance, is recognised as an expense when incurred.

# Notes to the Financial Statements

## (c) Depreciation

The provision for depreciation is calculated by using a straight-line method on the cost or valuation of all Property, Plant & Equipment other than freehold land in order to write-off such amounts over the following estimated useful lives in equal instalments as follows:

Buildings	over 20-40 years
Motor Vehicles	over 04 years
Vault/Safes	over 08 years
Office Equipment	
- Computer Hardware	over 04 years
- Other Equipment	over 04 years
- Electrical Equipment	over 08 years
Computer Software	over 07 years
Furniture & Fittings	over 08 years
Leasehold Improvements	Amortised over the lease period

Full depreciation was provided in the year of disposal and no depreciation was provided in the year of purchase on Property, Plant & Equipment acquired prior to 1st January 2006. Property, Plant & Equipment acquired after 1st January 2006 are depreciated from the month the assets are available for use over their estimated useful lives.

The assets' residual values, useful lives and method of depreciation are reviewed and adjusted if appropriate at each financial year-end.

## (d) Revaluation

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the Balance Sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in the Income Statement. A revaluation deficit is recognised in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

## (e) Derecognition

An item of Property, Plant & Equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement in the year the asset is derecognised.

### 2.10.7 Business Combinations and Goodwill

Business combinations are accounted for using the purchase method.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination after 1st June 2005 is from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill acquired in a business combination prior to 1st June 2005 in accordance with the transitional provisions of revised SLAS 25 was amortised over a period of 10 years until 31st December 2005. Thereafter, commencing 1st January 2006 such amortisation of goodwill has been discontinued and the accumulated amortisation at that date has been eliminated against the carrying value of goodwill and the balance goodwill tested for impairment in accordance with SLAS 41.

# Notes to the Financial Statements

## 2.10.8 Impairment of Non-Financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses of continuing operations are recognised in the Income Statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case, the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of goodwill:

The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates.

Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognised.

Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31st December.

A full provision was made in 2007 against equity for the goodwill of Rs. 372.053 mn that arose on the acquisition of the former Mercantile Leasing Limited on 1st January 2006 to comply with Section 22 of the Banking Act before the payment of dividends for the year 2006.

## 2.11 Provisions

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### 2.11.1 Proposed Dividend

Dividend proposed/declared by the Board of Directors, after the Balance Sheet date is not recognised as a liability and is only disclosed as a Note to the Financial Statements.

### 2.11.2 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of liabilities of the Bank and its fully-owned subsidiaries.

# Notes to the Financial Statements

## 2.11.3 Retirement Benefit Obligations

### (a) Defined Benefit Plan - Gratuity

The Group measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan with the advice of an actuary using the Projected Unit Credit Method. Actuarial gains and losses are recognised as income or expenses over the expected average remaining working lives of the participants of the plan.

The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

Accordingly, the employee benefit liability is based on the actuarial valuation carried out by Messrs Actuarial and Management Consultants (Private) Limited, actuaries.

The key assumptions used by the actuary include the following:

Rate of interest	10%
Rate of salary increase	11%
Retirement age	55-60 years

The gratuity liability is not externally funded. This item is grouped under 'Deferred Liabilities' in the Balance Sheet.

### (b) Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund and Employees' Trust Fund contributions in line with respective statutes and regulations. The Bank and its subsidiaries except for Nations Insurance Brokers Limited contribute defined percentages of gross emoluments of employees to an approved private Provident Fund managed by Nations Trust Bank PLC and to the Employees' Trust Fund respectively. Nations Insurance Brokers Limited contributes to the Employees' Provident Fund and the Employees' Trust Fund respectively.

## 2.12 Repurchase Agreements

These are borrowings collateralised by sale of securities held by the Group to counterparties from whom the Group

borrowed, subject to a commitment to repurchase them at a pre-determined price. All repurchase agreements involve debt instruments, such as Treasury Bills and Bonds and Corporate Papers.

In repurchase agreements, the cash received, including accrued interest, is recognised on the Balance Sheet with a corresponding obligation to return it. Interest incurred on repurchase agreements is recognised as an interest expense over the life of each agreement.

## 2.13 Income Statement

### 2.13.1 Revenue Recognition

#### (a) Interest Income from Customer Advances

In terms of the provisions of the Sri Lanka Accounting Standard No. 23 on Revenue Recognition and Disclosures in the Financial Statements of banks and the guidelines issued by the Central Bank of Sri Lanka, interest receivable is recognised on an accrual basis. Interest ceases to be taken into revenue when three instalments are overdue and interest accrued until such advances being classified as non-performing is also eliminated from interest income and transferred to interest in suspense. The interest income on non-performing advances is recognised on a cash basis.

(b) *Income on Discounting of Bills of Exchange*  
Income from discounting of Bills of Exchange is recognised on a cash basis.

#### (c) Income from Government and Other Discounted Securities

Discounts on Treasury Bills, Treasury Bonds and Commercial Papers are recognised on a straight-line basis over the period to maturity as income. Premium on Treasury Bonds are accounted for on a similar basis. The discount and the premium are dealt within the Income Statement.

Income from all other interest-bearing investments is recognised as revenue on an accrual basis.

#### (d) Fees and Commission Income

Fees and commission income comprise mainly of fees receivable from customers for guarantees, factoring, credit cards and other services provided by the Bank together with foreign and domestic tariff. Such income is recognised as revenue as the services are provided.



# Notes to the Financial Statements

*(e) Profit or Loss on Sale of Securities*

Profit or loss arising from the sale of marketable securities is accounted for on a cash basis and is categorised under other income.

*(f) Lease Income*

The Bank follows the finance method of accounting for lease income.

The excess of aggregate lease rentals receivable over the cost of the leased assets constitutes the total unearned finance income at the commencement of a lease. The unearned lease income is taken into income over the term of the lease, commencing with the month in which the lease is executed in proportion to the declining receivable balance, ensuring a constant rate of return, in terms of the provisions of SLAS 19 on Leases.

Gross earnings under finance leases in respect of lease rentals due cease to be taken to revenue when they are in arrears for three months. Thereafter, such income is recognised on a cash basis. Interest accrued until such leases are being classified as non-performing is also eliminated from interest income and transferred to interest in suspense.

*(g) Interest and Fees Receivable on Credit Cards*

Interest and fees receivable on credit cards are recognised on an accrual basis. Interest and fees cease to be taken to revenue when the recovery of interest or fees is identified as non-performing. Thereafter, interest and fees are accounted for on a cash basis.

*(h) Dividend Income*

Dividend income from shares is recognised in the period in which they are declared and approved.

*(i) Rental Income*

Rental income is recognised on an accrual basis.

*(j) Other Income*

Other income is recognised on an accrual basis.

## 2.14 Expenses

Interest payable is recognised on an accrual basis. All other expenses have been recognised in the Financial Statements as they are incurred in the period to which they relate.

## 2.15 Cash Flow Statement

The Cash Flow Statement has been prepared by using the 'Direct Method' in accordance with SLAS 9 on Cash Flow Statements, whereby gross cash receipts and gross cash payments of operating activities, financing activities and investing activities have been recognised. Cash and cash equivalents comprise mainly of cash balances, call placements and balances with the Central Bank of Sri Lanka.

## 2.16 Segment Reporting

A segment is a distinguishable component of the Group that is engaged in providing services (Business Segments) which is subject to risks and rewards that are different from those of other segments.

In accordance with SLAS 28 on Segment Reporting, segment information is presented in respect of the Group. The segments comprise of Banking, Investment Banking and Others.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Accounting Policies adopted for segment reporting are those Accounting Policies adopted for preparing the Financial Statements of the Group.

Inter-segment transfers are accounted for at competitive fair market prices charged to inter-bank counterparts for similar services. Such transfers are eliminated on consolidation.

## 2.17 Off-Balance Sheet Transactions

The Bank enters into Off-Balance Sheet transactions such as forward contracts and currency swaps. At the year end, profits and losses on such transactions are dealt with through the Income Statement.

## 2.18 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements. Please refer page 74 for the Statement of the Directors' Responsibility for Financial Reporting.

# Notes to the Financial Statements

## 3. CASH AND SHORT-TERM FUNDS

	2008 Rs. '000	Bank 2007 Rs. '000	2008 Rs. '000	Group 2007 Rs. '000
Cash in Hand	613,391	346,128	613,424	346,161
Money at Call and Short Notice	2,276,869	1,095,398	2,276,869	1,095,398
Balances with Banks	1,174,132	1,704,121	1,174,256	1,704,954
	<b>4,064,392</b>	<b>3,145,647</b>	<b>4,064,549</b>	<b>3,146,513</b>

## 4. STATUTORY DEPOSIT WITH THE CENTRAL BANK OF SRI LANKA

As required by the provisions of Section 93 of the Monetary Law Act, a cash balance is required to be maintained with the Central Bank of Sri Lanka.

As at 31st December 2008 the minimum cash reserve requirement was 7.75% of the unpaid local currency deposit liabilities of the Domestic Banking Unit. There is no reserve requirement for foreign currency deposit liabilities of the Domestic Banking Unit and the deposit liabilities of the Foreign Currency Banking Unit.

## 5. GOVERNMENT TREASURY BILLS AND BONDS

	2008 Rs. '000	Bank 2007 Rs. '000	2008 Rs. '000	Group 2007 Rs. '000
Govt. Treasury Bills and Bonds held for Trading	1,160,103	2,449,724	8,054,497	8,332,383
Govt. Treasury Bills and Bonds held to Maturity (5.1)	2,754,862	303,477	3,828,152	1,603,197
Treasury Bills under Reverse Repurchase Agreements	7,364,449	4,615,292	2,456,183	1,395,103
	<b>11,279,414</b>	<b>7,368,493</b>	<b>14,338,832</b>	<b>11,330,683</b>

5.1 The market value of these Treasury Bonds held to maturity as at 31st December 2008 amounts to Rs. 2,648 mn (2007 - Rs. 287 mn) and in the Group - Rs. 3,510 mn (2007 - Rs. 1,369 mn).

## 6. INVESTMENTS

### 6.1 Money Market Investments and Sri Lanka Development Bonds

	2008 Rs. '000	Bank 2007 Rs. '000	2008 Rs. '000	Group 2007 Rs. '000
Money Market Investments (US\$ 20 mn) (6.1.1)	2,271,795	—	2,271,795	—
Sri Lanka Development Bonds US\$ (unquoted) (6.1.2)	1,083,447	1,917,844	1,083,447	1,917,844
	<b>3,355,242</b>	<b>1,917,844</b>	<b>3,355,242</b>	<b>1,917,844</b>

### 6.2 Investment Securities

#### Unquoted - Shares

##### Lanka Clear (Pvt) Limited

150,000 Ordinary Shares of Rs. 10/- each 1,500 1,500 1,500 1,500

##### Credit Information Bureau of Sri Lanka

9,000 Ordinary Shares of Rs. 10/- each 90 90 90 90

##### Lanka Financial Services Bureau Limited

112,500 Ordinary Shares of Rs. 10/- each  
allotted on 31st December 2008 after refunding Rs. 1.875 mn  
(As at 31st December 2007 - shares were to be allotted) 1,125 3,000 1,125 3,000

#### Unquoted Preference Shares (Rated)

##### Dialog Telekom PLC

423 mn Cumulative Redeemable  
Preference Shares of Rs. 1/- each  
(470 mn Cumulative Redeemable  
Preference Shares of Rs. 1/- each in 2007) 423,000 470,000 423,000 470,000

425,715 474,590 425,715 474,590

**3,780,957 2,392,434 3,780,957 2,392,434**

# Notes to the Financial Statements

6.1.1 The money market placement made, has been backed by Sri Lanka Sovereign Bonds.

6.1.2 The investment in Sri Lanka Development Bonds amounts to US\$ 9.5 mn (2007 - US\$ 17.5 mn) and matures in years 2009 and 2010.

6.2.1 The Directors' valuation of unquoted investment securities and Sri Lanka Development Bonds of the Bank and the Group amounts to Rs. 1,509.162 mn (2007 - Rs. 2,392.434 mn).

## 7. LOANS AND ADVANCES

	2008 Rs. '000	Bank 2007 Rs. '000	2008 Rs. '000	Group 2007 Rs. '000
<b>7.1 Bills of Exchange</b>				
Inland Bills	36,738	27,608	36,738	27,608
Export Bills	376,106	530,551	376,106	530,551
Import Bills	10,142	3,450	10,142	3,450
	<b>422,986</b>	<b>561,609</b>	<b>422,986</b>	<b>561,609</b>
<b>7.2 Loans and Advances</b>				
Overdrafts	6,215,343	5,206,039	6,215,343	5,206,037
Term Loans	12,578,417	10,394,741	12,578,417	10,394,741
Staff Loans	881,023	556,073	881,023	556,074
Import Loans	2,007,704	1,719,679	2,007,704	1,719,679
Packing Credit Loans	346,832	333,557	346,832	333,557
Other Advances	5,230,527	4,170,694	5,773,990	5,229,093
	<b>27,259,846</b>	<b>22,380,783</b>	<b>27,803,309</b>	<b>23,439,181</b>
Less:				
Loan Loss Provision	(992,288)	(680,531)	(992,288)	(680,531)
Interest-in-Suspense	(432,932)	(340,239)	(432,932)	(340,239)
	<b>25,834,626</b>	<b>21,360,013</b>	<b>26,378,089</b>	<b>22,418,411</b>
<b>7.3 Lease Rentals Receivable</b>				
Cost of Leased Assets	25,959,567	21,025,152	25,959,831	21,027,975
Unearned Lease Income	12,090,334	9,364,461	12,090,334	9,364,460
Total Rentals Receivable	38,049,901	30,389,613	38,050,165	30,392,435
Lease Rentals Received	(25,682,010)	(20,630,269)	(25,682,010)	(20,630,269)
Lease Rentals Receivable (7.3.1)	<b>12,367,891</b>	<b>9,759,344</b>	<b>12,368,155</b>	<b>9,762,166</b>
<b>7.3.1 Lease Rentals Receivable within one year</b>				
Total Lease Rentals Receivable	12,367,891	9,759,344	12,368,155	9,762,166
Lease Rentals Receivable after one year from Balance Sheet Date (7.3.2)	(7,612,637)	(6,279,514)	(7,612,637)	(6,279,514)
Lease Rentals Receivable within one year from Balance Sheet Date	4,755,254	3,479,830	4,755,518	3,482,652
Unearned Lease Income	(1,730,220)	(1,253,118)	(1,730,220)	(1,253,118)
Overdue Lease Rentals	435,590	244,835	435,590	244,835
Terminated Leases	50,497	38,405	50,497	38,405
Accrued Income on Non-Performing Leases	(56,624)	(26,633)	(56,624)	(26,633)
Provision for Bad and Doubtful Leases	(80,278)	(48,388)	(80,278)	(48,388)
	<b>3,374,219</b>	<b>2,434,931</b>	<b>3,374,483</b>	<b>2,437,753</b>

# Notes to the Financial Statements

	2008 Rs. '000	Bank 2007 Rs. '000	2008 Rs. '000	Group 2007 Rs. '000
<b>7.3.2 Lease Rentals Receivable after one year</b>				
Lease Rentals Receivable after one year				
from Balance Sheet Date	7,612,637	6,279,514	7,612,637	6,279,514
Unearned Lease Income	(1,722,516)	(1,373,037)	(1,722,516)	(1,373,037)
Provision for Bad and Doubtful Leases	(121,660)	(90,093)	(121,660)	(90,093)
	5,768,461	4,816,384	5,768,461	4,816,384

## 7.4 Corporate Debt Securities

Commercial Papers/Debentures	2,264,482	1,364,328	1,666,592	1,553,904
Fixed/Floating Rate Notes	1,513,156	1,586,730	1,523,437	1,759,837
Trust Certificates	149,935	337,574	806,337	952,000
	3,927,573	3,288,632	3,996,366	4,265,741

## 7.5 Non-Performing Loans and Advances

Overdrafts	263,315	255,243	263,315	255,243
Term Loans	1,025,901	434,844	1,025,901	434,844
Import Loans	53,668	50,787	53,668	50,787
Packing Credit Loans	57,240	73,012	57,240	73,012
Other Advances	377,487	215,363	377,487	215,363
Lease Rentals Receivable	660,794	437,255	660,794	437,255
	2,438,405	1,466,504	2,438,405	1,466,504

## 7.6 Movements in the Provision for Bad and Doubtful Debts and Suspended Interest

### 7.6.1 Bank

	Provision Against Loans and Advances			Suspended Interest
	Specific Rs. '000	General Rs. '000	Total Rs. '000	Rs. '000
As at the beginning of the year	540,009	279,003	819,012	366,872
Provision made during the year (Net of Interest Suspended, Suspended Interest Recovered and Provision Written Off)	339,804	34,584	374,388	122,685
Translation Difference in Foreign Currency Conversion	6	821	827	—
As at the end of the year	879,819	314,408	1,194,227	489,557

### 7.6.2 Group

As at the beginning of the year	540,009	279,003	819,012	366,872
Provision made during the year (Net of Interest Suspended, Suspended Interest Recovered and Provision Written Off)	339,804	34,584	374,388	122,685
Translation Difference in Foreign Currency Conversion	6	821	827	—
As at the end of the year	879,819	314,408	1,194,227	489,557

# Notes to the Financial Statements

## 7.7 Concentration of Credit Risk

Analysis of the Bank's Loans and Advances portfolio reflecting the exposure to credit risk in various sectors of the economy is detailed below:

Sector	2008		2007	
	Rs. '000	%	Rs. '000	%
Food, Beverages and Tobacco	816,830	2	561,750	2
Textile and Wearing Apparel	910,098	2	723,410	2
Rubber and Leather Products	1,366,595	3	522,978	2
Metals, Chemicals and Engineering	400,417	1	829,767	2
Services	4,668,366	11	2,601,373	7
Tourism	591,144	1	609,805	2
Agro-Business and Fisheries	993,433	2	890,299	2
Industrial	2,172,440	5	2,979,310	8
Housing	3,291,625	8	2,420,274	7
Commercial Trading	8,737,544	20	9,943,378	28
Consumption - Leasing	4,578,837	10	1,948,836	5
- Others	15,450,967	35	11,959,188	33
	43,978,296	100	35,990,368	100

## 8. OTHER ASSETS

	Bank		Group	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Deposits and Prepayments	475,687	249,410	475,742	249,585
Amounts due from Related Parties	597,357	252,178	-	-
Other Receivables	1,245,557	799,755	1,301,893	959,745
	2,318,601	1,301,343	1,777,635	1,209,330

## 9. INVESTMENTS IN SUBSIDIARIES

### Unquoted

Name of Company	Country of Incorporation	Holding %	2008		Holding %	2007	
			Cost Rs. '000	Directors' Valuation Rs. '000		Cost Rs. '000	Directors' Valuation Rs. '000
Waldock Mackenzie Limited	Sri Lanka	100	-	288,384	100	-	206,629
<b>Acquired on Merger of Operations</b>							
Allied Properties Limited	Sri Lanka	100	652,907	652,907	100	652,907	652,907
Nations Insurance Brokers Limited (formerly MLL Insurance Brokers Limited)	Sri Lanka	100	25,803	25,803	100	25,803	25,803
Mercantile Leasing (Financial Services) Limited	Sri Lanka	100	3,496	-	100	3,496	-
Provision for Diminution in Value			(3,496)			(3,496)	
Net Carrying Amount			678,710	967,094		678,710	885,339

# Notes to the Financial Statements

## 10. PROPERTY, PLANT & EQUIPMENT

### 10.1 Bank

	Balance as at 01.01.2008 Rs. '000	Transfers during the year Rs. '000	Additions during the year Rs. '000	Disposals during the year Rs. '000	Balance as at 31.12.2008 Rs. '000
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#### 10.1.1 Gross Carrying Amounts

##### At Cost

Land and Buildings	37,464	–	616,940	–	654,404
Motor Vehicles	86,381	–	–	(22,385)	63,996
Office and Electrical Equipment	178,767	(656)	74,156	(763)	251,504
Computer Software and Equipment	720,040	–	389,610	(2,648)	1,107,002
Furniture and Fittings	132,285	2,119	70,493	(3,216)	201,681
Leasehold Improvements	90,430	(1,463)	42,673	(10,561)	121,079
<b>Total Gross Carrying Amount</b>	<b>1,245,367</b>	<b>–</b>	<b>1,193,872</b>	<b>(39,573)</b>	<b>2,399,666</b>

	Balance as at 01.01.2008 Rs. '000	Transfers during the year Rs. '000	Charge for the year Rs. '000	Disposals during the year Rs. '000	Balance as at 31.12.2008 Rs. '000
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#### 10.1.2 Depreciation

##### At Cost

Land and Buildings	8,659	–	4,268	–	12,927
Motor Vehicles	37,826	–	15,775	(15,124)	38,477
Office and Electrical Equipment	116,485	(560)	24,319	(577)	139,667
Computer Software and Equipment	461,974	–	122,485	(2,604)	581,855
Furniture and Fittings	66,095	1,723	16,021	(2,013)	81,826
Leasehold Improvements	71,651	(1,163)	9,015	(9,988)	69,515
<b>Total Depreciation</b>	<b>762,690</b>	<b>–</b>	<b>191,883</b>	<b>(30,306)</b>	<b>924,267</b>

#### 10.1.3 Net Book Value

Land and Buildings	28,805				641,477
Motor Vehicles	48,555				25,519
Office and Electrical Equipment	62,282				111,837
Computer Software and Equipment	258,066				525,147
Furniture and Fittings	66,190				119,855
Leasehold Improvements	18,779				51,564
<b>Total Net Book Value</b>	<b>482,677</b>				<b>1,475,399</b>

10.1.4 During the financial year, the Bank acquired Property, Plant & Equipment to the aggregate value of Rs. 1,193.9 mn (2007 - Rs. 156.3 mn). Cash payments amounting to Rs. 1,193.8 mn (2007 - Rs. 156.3 mn) were made during the year for purchase of Property, Plant & Equipment.

10.1.5 Property, Plant & Equipment include fully depreciated assets having a gross carrying amount of Rs. 582.7 mn (2007 - Rs. 427.8 mn).

# Notes to the Financial Statements

## 10.2 Group

	Balance as at 01.01.2008 Rs. '000	Transfers during the year Rs. '000	Additions during the year Rs. '000	Disposals during the year Rs. '000	Balance as at 31.12.2008 Rs. '000
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### 10.2.1 Gross Carrying Amounts

#### At Cost/Valuation

Land and Buildings	624,709	–	617,025	–	1,241,734
Motor Vehicles	142,512	(1,442)	–	(59,711)	81,359
Office and Electrical Equipment	182,933	786	75,560	(763)	258,516
Computer Software and Equipment	723,610	–	389,610	(2,648)	1,110,572
Furniture and Fittings	132,516	2,119	70,493	(3,216)	201,912
Leasehold Improvements	90,430	(1,463)	42,673	(10,561)	121,079
<b>Total Gross Carrying Amount</b>	<b>1,896,710</b>	<b>–</b>	<b>1,195,361</b>	<b>(76,899)</b>	<b>3,015,172</b>

	Balance as at 01.01.2008 Rs. '000	Transfers during the year Rs. '000	Charge for the year Rs. '000	Disposals during the year Rs. '000	Balance as at 31.12.2008 Rs. '000
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### 10.2.2 Depreciation

#### At Cost/Valuation

Land and Buildings	30,609	–	15,250	–	45,859
Motor Vehicles	77,949	(1,417)	23,041	(46,180)	53,393
Office and Electrical Equipment	119,208	857	24,819	(577)	144,307
Computer Software and Equipment	465,540	–	122,485	(2,604)	585,421
Furniture and Fittings	66,327	1,723	16,021	(2,015)	82,056
Leasehold Improvements	71,651	(1,163)	9,015	(9,988)	69,515
<b>Total Depreciation</b>	<b>831,284</b>	<b>–</b>	<b>210,631</b>	<b>(61,364)</b>	<b>980,551</b>

### 10.2.3 Net Book Value

Land and Buildings	594,100				1,195,875
Motor Vehicles	64,563				27,966
Office and Electrical Equipment	63,725				114,209
Computer Software and Equipment	258,070				525,151
Furniture and Fittings	66,189				119,856
Leasehold Improvements	18,779				51,564
<b>Total Net Book Value</b>	<b>1,065,426</b>				<b>2,034,621</b>

10.2.4 During the financial year, the Group acquired Property, Plant & Equipment to the aggregate value of Rs. 1,195.3 mn (2007 - Rs. 158 mn). Cash payments amounting to Rs. 1,195.3 mn (2007 - Rs. 158.1 mn) were made during the year for purchase of Property, Plant & Equipment.

10.2.5 Property, Plant & Equipment include fully depreciated assets having a gross carrying amount of Rs. 607.9 mn (2007 - Rs. 455.9 mn).

10.2.6 The land and building of Allied Properties Limited were revalued in October 2005 by Mr. P.B. Kalugalagedara, an independent chartered valuer. The results of such revaluation was incorporated in the Financial Statements from its effective date, which is 1st January 2006. The surplus arising from the revaluation was transferred to a Revaluation Reserve. Depreciation based on the last valuation was made commencing from 1st January 2006.



## Notes to the Financial Statements

The carrying amount of revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation is as follows:

Class of Asset	Cost Rs. '000	Cumulative Depreciation if assets were carried at Cost Rs. '000	Net carrying amount 2008 Rs. '000	Net carrying amount 2007 Rs. '000
Buildings	270,789	65,960	204,829	211,598

### 11. GOODWILL

	2008 Rs. '000	Bank 2007 Rs. '000	2008 Rs. '000	Group 2007 Rs. '000
Balance as at the beginning of the year	372,053	372,053	451,314	451,314
Provision made to be compliant with the Banking Act (11.2)	(372,053)	(372,053)	(372,053)	(372,053)
Balance as at the end of the year	–	–	79,261	79,261

11.1 Goodwill acquired through business combinations have been allocated to three individual cash-generating units, for impairment testing as follows:

Bank : Leasing and Factoring

Group : Investment Banking

Insurance Broking

The recoverable amounts of the above units have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management, covering a five year period. Cash flows beyond the five-year period are extrapolated using a zero growth rate.

11.2 A full provision was made in the books of the Bank in April 2007 against equity for the goodwill of Rs. 372.053 mn that arose from the merger of former Mercantile Leasing Limited with the Bank in order to be compliant with the provisions contained in Section 22 of the Banking Act, before the payment of the dividend for the year ended 31st December 2006.

### 12. DEPOSITS

	2008 Rs. '000	Bank 2007 Rs. '000	2008 Rs. '000	Group 2007 Rs. '000
<b>12.1 Analysis of Deposits</b>				
Demand Deposits	3,844,770	3,356,315	3,844,744	3,356,315
Savings Deposits	5,838,663	3,902,707	5,838,663	3,902,707
Call Deposits	1,400,036	2,555,939	1,400,036	2,555,939
Fixed Deposits	21,671,833	18,130,177	21,671,833	18,130,177
Certificates of Deposit	1,391,198	720,619	1,391,198	720,619
	<b>34,146,500</b>	<b>28,665,757</b>	<b>34,146,474</b>	<b>28,665,757</b>
<b>12.2 Sources of Deposits</b>				
Deposits from Banks	92	41,041	92	41,041
Deposits from Other Financial Institutions	739,749	608,926	739,749	608,926
Deposits from Other Customers	33,406,659	28,015,790	33,406,633	28,015,790
	<b>34,146,500</b>	<b>28,665,757</b>	<b>34,146,474</b>	<b>28,665,757</b>

# Notes to the Financial Statements

## 13. BORROWINGS

	2008 Rs. '000	Bank 2007 Rs. '000	2008 Rs. '000	Group 2007 Rs. '000
<b>13.1 Borrowings</b>				
Money Market Borrowings	5,048,857	2,727,952	5,048,857	2,727,952
Borrowings under Repurchase Agreements				
- Treasury Bills, Treasury Bonds and				
Corporate Paper	10,316,405	6,603,900	13,155,004	11,337,173
Commercial Paper	–	–	5,731	819,062
Trust Certificates	1,766,331	1,847,609	1,766,331	1,847,609
Refinance Borrowings	578,588	561,693	578,588	561,693
Other Borrowings	1,899,975	726,900	1,899,975	783,524
	<b>19,610,156</b>	<b>12,468,054</b>	<b>22,454,486</b>	<b>18,077,013</b>
<b>13.2 Borrowings - Maturity Analysis</b>				
Repayments due within one year	16,834,140	11,465,329	19,175,830	16,369,766
Repayments due between 1 to 5 years	2,776,016	1,002,725	3,278,656	1,707,247
	<b>19,610,156</b>	<b>12,468,054</b>	<b>22,454,486</b>	<b>18,077,013</b>

## 14. OTHER LIABILITIES

Accrued Expenditure	1,829,542	1,406,395	1,809,937	1,429,066
Margin Balances	163,287	198,203	163,287	198,203
Pay Orders	256,714	251,389	256,714	251,389
Tax Payable	79,787	103,425	102,838	147,815
Others	1,106,891	1,360,129	939,430	1,280,545
	<b>3,436,221</b>	<b>3,319,541</b>	<b>3,272,206</b>	<b>3,307,018</b>

## 15. DEFERRED LIABILITIES

Retirement Benefits Obligation - Gratuity	112,771	81,587	117,030	85,026
Deferred Taxation (15.1)	188,329	114,148	188,329	116,648
	<b>301,100</b>	<b>195,735</b>	<b>305,359</b>	<b>201,674</b>

### 15.1 Deferred Taxation

Balance as at the beginning of the year	114,148	120,224	116,648	138,581
Charge/(Reversal) during the year	74,181	(6,076)	71,681	(21,933)
Balance as at the end of the year	<b>188,329</b>	<b>114,148</b>	<b>188,329</b>	<b>116,648</b>

### 15.2 Net Deferred Tax Liability

	2008 Rs. '000	2007 Rs. '000
<b>Deferred Tax Liability</b>		
Accelerated Depreciation Allowances for Tax Purposes		
(Lease Rentals Receivable)	(240,552)	(165,127)
Accelerated Depreciation Allowances for Tax Purposes		
(Property, Plant & Equipment)	(78,698)	(69,028)
	<b>(319,250)</b>	<b>(234,155)</b>

# Notes to the Financial Statements

	2008 Rs. '000	2007 Rs. '000
<b>Deferred Tax Asset</b>		
General Provision for Loans, Advances and Lease Receivables	91,451	91,451
Defined Benefit Plan Liability	39,470	28,556
	<b>130,921</b>	<b>120,007</b>
<b>Bank</b>		
Net Deferred Tax Liability	(188,329)	(114,148)
Undistributed Profits of a Subsidiary Company	–	(2,500)
<b>Group</b>		
Net Deferred Tax Liability	(188,329)	(116,648)

- 15.3 The Group has a Tax Loss which arose in Mercantile Leasing (Financial Services) Limited that is available indefinitely for offset against future taxable profit of the Company subject to the limit of 35% of taxable profit in one year of assessment. A deferred tax asset has not been recognised in respect of this tax loss as it is anticipated that the deferred tax asset will not realise in the foreseeable future.

## 16. DEBENTURES

	2008 Rs. '000	Bank 2007 Rs. '000	2008 Rs. '000	Group 2007 Rs. '000
Balance as at the beginning of the year	500,000	560,000	500,000	560,000
Issued during the year	1,000,000	–	1,000,000	–
Redemptions during the year	–	(60,000)	–	(60,000)
Balance as at the end of the year	1,500,000	500,000	1,500,000	500,000

In 2006, the Bank issued unsecured redeemable debentures that were fully subscribed by DFCC Bank PLC, that also arranged the issue. The tenor of the debentures ranges from 1 to 6 years with redemptions in the years of 2007, 2010, 2011 and 2012. The debentures are secured by a negative pledge over specified lease agreements of motor vehicles.

In 2008, the Bank issued a further Rs. 1.000 bn worth unsecured subordinated redeemable debentures that will mature in 2013.

## 17. SUBORDINATED LOAN

	2008 Rs. '000	Bank 2007 Rs. '000	2008 Rs. '000	Group 2007 Rs. '000
Balance as at the beginning of the year	673,250	673,250	673,250	673,250
Balance as at the end of the year	673,250	673,250	673,250	673,250

The above represents 100% of the Sri Lanka Rupee designated subordinated housing loan credit facility obtained from Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO).

This loan is repayable in 10 equal semi-annual instalments commencing from 1st October 2009.

# Notes to the Financial Statements

## 18. STATED CAPITAL

	2008 Rs. '000	Bank 2007 Rs. '000	2008 Rs. '000	Group 2007 Rs. '000
Balance as at 1st January - 125,786,004 ordinary shares (125,786,004 shares in 2007)	2,061,554	2,061,554	2,061,554	2,061,554
Rights issue of shares in February 2008 on the basis of 1 for every 3 held - 41,928,668 ordinary shares	1,048,217	–	1,048,217	–
Balance as at 31st December - 167,714,672 ordinary shares (125,786,004 shares in 2007)	3,109,771	2,061,554	3,109,771	2,061,554

## 19. RESERVE FUND

	2008 Rs. '000	Bank 2007 Rs. '000	2008 Rs. '000	Group 2007 Rs. '000
As at the beginning of the year	56,679	28,995	56,679	28,995
Transferred during the year	23,830	27,684	23,830	27,684
As at the end of the year	80,509	56,679	80,509	56,679

Five per centum of profits after tax is transferred to the Reserve Fund as required by Section 20 (1) of the Banking Act No. 30 of 1988. This Reserve Fund will be used only for the purposes specified in Section 20 (2) of the Banking Act No. 30 of 1988.

## 20. RESERVES

	2008 Rs. '000	Bank 2007 Rs. '000	2008 Rs. '000	Group 2007 Rs. '000
<b>20.1 Revenue Reserves</b>				
As at the beginning of the year	460,615	432,459	740,958	771,163
Profit for the Year	476,608	553,679	593,119	504,818
Dividend Paid	(167,715)	(125,786)	(167,715)	(125,786)
Provision made for Goodwill to be Compliant with the Banking Act	–	(372,053)	–	(372,053)
Transfers to Reserve Fund during the year (Note 19)	(23,830)	(27,684)	(23,830)	(27,684)
Capitalisation of Reserves on the Issue of Bonus Shares by a Subsidiary	–	–	–	(9,500)
As at the end of the year	745,678	460,615	1,142,532	740,958
<b>20.2 Capital Reserves</b>				
Capitalisation of Reserves on the Issue of Bonus Shares by a Subsidiary	–	–	9,500	9,500
Total Reserves	745,678	460,615	1,152,032	750,458

# Notes to the Financial Statements

## 21. COMMITMENTS AND CONTINGENCIES

### 21.1 Contingencies

In the normal course of business, the Bank makes various commitments and incurs contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

	Bank		Group	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Acceptances	2,485,340	744,546	2,485,340	744,546
Documentary Credits	1,135,259	1,797,792	1,135,259	1,797,792
Guarantees	243,389	403,580	243,389	403,580
Bonds and Warranties	3,993,652	2,218,936	3,993,652	2,218,936
Bills Sent on Collection	2,739,393	1,496,444	2,739,393	1,496,444
Forward Exchange Contracts (Net)	(1,362)	4,813	(1,362)	4,813
Undrawn Facilities	15,132,384	11,472,350	15,132,384	11,472,350
	25,728,055	18,138,461	25,728,055	18,138,461

- 21.2 During the year 2008, the Bank has entered into Interest Rate Swap Agreements amounting to a total notional value of Rs. 2,448.750 mn which mature in years 2011 and 2012. The details relating to Interest Rate Swap Agreements entered into prior to 2008 are given below:

Year of the Agreement	Notional Value (Rs. mn)	Year of Maturity
2005	250.000	2009
2007	700.000	2010 and 2011

In addition, during the year the Bank has entered into Overnight Indexed Swap Agreements amounting to a total notional value of Rs. 500 mn which mature in 2009.

- 21.3 The Bank has entered into several Currency Swaps totalling to Rs. 13,337.728 mn (2007 - Rs. 7,317.039 mn) as at the Balance Sheet date.
- 21.4 The Bank and the Group have entered into several forward contracts, to sell Government Securities of which face values amount to Rs. 50 mn and Rs. 850 mn respectively as at the Balance Sheet date (2007 - Nil).

### 21.5 Capital Commitments

Capital expenditure approved by the Board of Directors, for which no provision has been made in these Financial Statements as at 31st December is as follows:

	Bank		Group	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Approved and Contracted for	306,655	790,810	306,655	790,810

### 21.6 Material Litigation against the Bank

- (i) An appeal has been made against the injunction issued against the Bank in a Court action initiated in India by a customer seeking to restrain the Bank from invoking a letter of credit, where the Bill value paid by the Bank is US\$ 32,000. A connected case is pending where an amount of Indian Rupees 1,510,000/- is claimed against the Bank by the same customer. Both cases are still pending.

Based on the information available and on expert advice, the Directors are confident that the ultimate resolution of the above contingency is unlikely to have a material adverse effect on the financial position of the Bank.

# Notes to the Financial Statements

	2008 Rs. '000	Bank 2007 Rs. '000	2008 Rs. '000	Group 2007 Rs. '000
<b>22. GROSS INCOME</b>				
Interest Income	10,304,526	6,950,949	12,094,171	8,010,729
Fees and Commission Income	302,153	279,509	338,249	307,019
Foreign Exchange Income	495,546	329,244	495,546	329,245
Other Operating Income	863,223	818,833	949,483	694,919
	<b>11,965,448</b>	<b>8,378,535</b>	<b>13,877,449</b>	<b>9,341,912</b>
<b>23. INTEREST INCOME</b>				
Customer Advances	7,255,916	4,954,801	7,455,364	5,252,282
Treasury Bills and Bonds	1,724,655	911,992	2,983,084	1,564,964
Deposits with Other Banks	424,173	238,107	424,173	238,107
Corporate Debt Securities	607,619	585,011	1,037,298	697,825
Other Interest Income	292,163	261,038	194,252	257,551
	<b>10,304,526</b>	<b>6,950,949</b>	<b>12,094,171</b>	<b>8,010,729</b>
<b>24. INTEREST EXPENSE</b>				
Customer Deposits	3,379,004	2,448,552	3,379,004	2,448,552
Borrowings	2,329,281	1,328,343	2,404,033	1,508,199
Treasury Bills, Bonds and Corporate Papers Repurchased	1,862,146	1,287,813	3,401,885	1,943,528
	<b>7,570,431</b>	<b>5,064,708</b>	<b>9,184,922</b>	<b>5,900,279</b>
<b>25. OTHER OPERATING INCOME</b>				
Gain/(Loss) on Sale of Government and Corporate Debt Securities	(9,800)	3,900	48,888	19,024
Fees and Other Income	873,023	814,933	900,595	675,895
	<b>863,223</b>	<b>818,833</b>	<b>949,483</b>	<b>694,919</b>
<b>26. PROFIT BEFORE TAXATION</b>				
Stated after charging/(crediting) the following among others:				
<b>Included in Personnel Cost</b>				
Defined Contribution Plan Cost - EPF and ETF	97,887	58,495	99,637	59,027
<b>Included in Provision for Staff Retirement Benefits</b>				
Defined Benefit Plan Cost - Gratuity	36,949	33,001	37,770	34,134
<b>Included in Premises, Equipment and Establishment Cost</b>				
Depreciation	191,883	174,690	210,631	204,300
Legal Fees	15,671	12,108	15,671	12,114
Business Promotion and Advertising	229,489	131,976	229,663	131,976
Transport Cost	99,563	81,441	101,293	83,820
(Profit)/Loss on Disposal of Property, Plant & Equipment	(425)	(9,151)	(2,752)	(11,101)

# Notes to the Financial Statements

## 27. TAXATION

	2008 Rs. '000	Bank 2007 Rs. '000	2008 Rs. '000	Group 2007 Rs. '000
Income Tax on Profit for the year (27.1)	276,532	257,205	363,707	364,509
Charge/(Reversal) of Deferred Tax (15.1)	74,181	(6,076)	71,681	(21,933)
	350,713	251,129	435,388	342,576

### 27.1 Reconciliation of Accounting Profit and Taxable Income

Accounting Profit (Profit before Taxation)	827,321	804,808	1,028,507	847,394
Add: Disallowable Expenses	2,697,546	2,315,303	2,796,274	2,386,555
	3,524,867	3,120,111	3,824,781	3,233,949
Less: Allowable Expenses	2,543,387	2,062,082	2,547,944	2,053,298
Less: Exempt Income	203,064	330,433	239,518	330,433
<b>Statutory Income</b>	<b>778,416</b>	<b>727,596</b>	<b>1,037,319</b>	<b>850,218</b>
Less: Tax losses brought forward and utilised	–	–	(1,681)	(8,875)
<b>Taxable Income</b>	<b>778,416</b>	<b>727,596</b>	<b>1,035,638</b>	<b>841,343</b>

Income Tax expense for the year is made up:

Current Income Tax Expense (Including SRL at 1.5% for 2008 and 1% for 2007)

	276,532	257,205	363,707	364,509
Charge/(Reversal) of Deferred Tax	74,181	(6,076)	71,681	(21,933)
	350,713	251,129	435,388	342,576
Effective Income Tax Rate	42.39%	31.20%	42.33%	40.43%

Effective Tax rate of the Bank in 2007 is comparatively lower due to dividends received from two of the subsidiaries of the Group.

The Group Tax expense is based on the taxable profit of each Group Company, since at present the tax laws do not provide for Group taxation.

## 28. EARNINGS PER SHARE

Basic Earnings Per Share is calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

	2008	Group 2007
<b>Amount Used as the Numerator:</b>		
Profit Attributable to Ordinary Shareholders (Rs.)	593,118,956	504,818,369
<b>Number of Ordinary Shares Used as the Denominator:</b>		
Ordinary Shares at the beginning of the year	125,786,004	125,786,004
Weighted Average of the Shares issued during the year	35,832,857	–
Bonus Share Element in the Rights Issue	–	3,462,000
Weighted Average Number of Ordinary Shares in issue	161,618,861	129,248,004
Earnings Per Ordinary Share (Rs.)	3.67	3.91



# Notes to the Financial Statements

## 29. DIVIDENDS PROPOSED

A first and final dividend of Rs. 1.50 per share has been proposed by the Board of Directors for the year 2008 to be approved at the Annual General Meeting. However, no provision is made for this proposed dividend in these Financial Statements in accordance with SLAS 12. A dividend of Rs. 1.00 was paid in April 2008 for the year ended 31st December 2007.

## 30. SEGMENTAL INFORMATION

In Rs. '000	Banking		Investment Banking		Others		Elimination/Allocated		Group	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
<b>Total Revenue</b>	<b>11,965,448</b>	<b>8,378,535</b>	<b>3,013,586</b>	<b>2,112,583</b>	<b>90,859</b>	<b>95,862</b>	<b>(1,192,445)</b>	<b>(1,245,069)</b>	<b>13,877,449</b>	<b>9,341,912</b>
<b>Segment Results</b>										
Profit before Taxation	827,321	804,808	186,987	179,163	39,578	30,928	(25,379)	(167,505)	1,028,507	847,394
Taxation	(350,713)	(251,129)	(70,232)	(76,107)	(14,443)	(15,340)	–	–	(435,388)	(342,576)
Profit for the year	476,608	553,679	116,755	103,056	25,135	15,588	(25,379)	(167,505)	593,119	504,818
<b>Segment Assets</b>	<b>64,642,051</b>	<b>49,794,905</b>	<b>13,388,949</b>	<b>12,459,588</b>	<b>744,164</b>	<b>733,709</b>	<b>(11,121,472)</b>	<b>(7,379,887)</b>	<b>67,653,692</b>	<b>55,608,316</b>
Goodwill	–	–	–	–	–	–	79,261	79,261	79,261	79,261
Total Assets	64,642,051	49,794,905	13,388,949	12,459,588	744,164	733,709	(11,042,211)	(7,300,626)	67,732,953	55,687,577
<b>Segment Liabilities</b>	<b>60,517,764</b>	<b>47,101,909</b>	<b>13,100,565</b>	<b>12,252,960</b>	<b>58,008</b>	<b>65,688</b>	<b>(10,474,025)</b>	<b>(6,718,319)</b>	<b>63,202,312</b>	<b>52,702,238</b>
Deferred Tax Liabilities	188,329	114,148	–	–	–	–	–	2,500	188,329	116,648
Total Liabilities	60,706,093	47,216,057	13,100,565	12,252,960	58,008	65,688	(10,474,025)	(6,715,819)	63,390,641	52,818,886
<b>Others</b>										
Additions to Property,										
Plant & Equipment	1,193,872	156,286	–	–	1,490	1,781	–	–	1,195,362	158,068
Depreciation	191,883	174,690	11	192	18,737	29,418	–	–	210,631	204,300
<b>Non-Cash Expenses</b>										
Provision for Bad and										
Doubtful Debts	470,898	217,046	–	–	–	–	–	–	470,898	217,046
Provision for Gratuity	36,949	33,001	(348)	342	1,169	791	–	–	37,770	34,134

# Notes to the Financial Statements

## 31. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

### 31.1 Transactions with Related Parties

#### *Name of the Company and Relationship*

	Significant Investors*		Subsidiaries**	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Balance Sheet</b>				
<b>Assets</b>				
Loans and Advances	50,014	117	5,962	34,344
Corporate Credit Cards	135	131	–	–
Investments in Corporate Debts and Government Securities	–	100,000	8,780,484	6,438,422
Other Assets	–	–	597,357	252,178
<b>Liabilities</b>				
Deposits	2,924,572	1,326,432	5,759	865
Borrowings	3,346,006	453,028	2,314,063	2,347,285
Other Liabilities	–	–	135,479	120,488
<b>Equity</b>				
Dividends Paid	75,607	56,490	–	–
Issue of Bonus Shares	–	–	–	9,500
<b>Off Balance Sheet</b>				
Undrawn Facilities	202,905	2,868	–	–
Guarantees/Collateral given	27,727	5,399	–	50
<b>Income Statement</b>				
Interest Income	27,751	48,040	907,487	576,402
Interest Paid	537,247	421,500	251,555	488,534
Other Income	302	152	6,146	5,395
Dividends Received (net)	–	–	37,800	186,000
Expenses Paid	14,642	21,362	13,060	9,351
Provisions for Investment and against Receivables	–	–	12,421	18,496

\* Significant Investors include John Keells Holdings PLC, Mackinnon & Keells Financial Services Limited, Central Finance Company PLC, CF Growth Fund Limited and CF Insurance Brokers Limited.

\*\* Subsidiaries of the Group include Waldock Mackenzie Limited, Allied Properties Limited, Nations Insurance Brokers Limited and Mercantile Leasing (Financial Services) Limited.

# Notes to the Financial Statements

## 31.2 Transactions with Key Management Personnel

Key Management Personnel (KMP) include the Board of Directors of the Bank, Chief Executive Officer of the Bank, Key Employees of the Bank including Directors in subsidiary companies and corporate management of the Bank.

### (a) Compensation to Key Management Personnel

	2008 Rs. '000	2007 Rs. '000
Emoluments/Fees	124,523	97,697
Post Employment Benefits	4,973	3,845
	<b>129,496</b>	<b>101,542</b>

### (b) Transactions, Arrangements and Agreements involving Key Management Personnel

	Key Management Personnel and their Close Family Members (CFM)		Entities in which KMPs and their CFMs have control, joint control or significant influence	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Balance Sheet</b>				
<b>Assets</b>				
Loans and Advances	56,096	48,705	3,698	448
Credit Cards	4,070	3,465	–	–
Investments in Government Securities	507	5,153	–	–
<b>Liabilities</b>				
Deposits	62,063	55,347	21,144	23,778
Borrowings	23,629	20,311	–	–
<b>Equity</b>				
Dividends Paid (net)	3,379	1,406	–	–
<b>Off Balance Sheet</b>				
Undrawn Facilities	13,422	20,636	8,602	–
Guarantees/Collateral given	–	–	3,473	1,552
<b>Income Statement</b>				
Interest Income	4,709	2,383	545	483
Interest Paid	7,045	6,215	2,946	2,059
Other Income	39	14	377	357
Expenses Paid	–	–	2,518	1,743

During the year 2008, Key Management Personnel (KMP) and their Close Family Members (CFM) have bought 2,222,743 shares. During the year 2008, KMPs and their CFMs have sold 26,000 shares of the Bank.

# Notes to the Financial Statements

## 31.3 Post-Employment Benefits Plan

The Employees' Private Provident Fund of the Bank is managed by a Committee of Trustees appointed by the members.

The Bank for the year ended 31st December 2008 has contributed a sum of Rs. 79.584 mn to the Fund (2007 - Rs. 49.028 mn).

As at 31st December 2008, the Fund has invested a sum of Rs. 372.067 mn with the Bank (2007 - Rs. 211.190 mn).

## 32. MATURITY ANALYSIS

### 32.1 Bank

(In Rs. '000)	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years	2008 Total	2007 Total
<b>Assets</b>							
<b>Interest Earning Assets</b>							
Money at Call and Short Notice	2,276,869	–	–	–	–	2,276,869	1,095,398
Government Treasury Bills and Bonds	7,957,955	527,122	2,794,337	–	–	11,279,414	7,368,493
Corporate Debt Securities	2,292,465	1,387,444	68,664	–	179,000	3,927,573	3,288,632
Bills of Exchange	422,986	–	–	–	–	422,986	561,609
Loans & Advances	13,740,161	1,896,821	2,987,698	4,218,182	2,991,764	25,834,626	21,360,013
Investments	294,102	1,093,050	1,141,090	1,250,000	2,715	3,780,957	2,392,434
Lease Rentals Receivable	855,849	2,469,971	4,762,476	1,053,510	874	9,142,680	7,251,315
	27,840,387	7,374,408	11,754,265	6,521,692	3,174,353	56,665,105	43,317,894
<b>Non-Interest Earning Assets</b>							
Cash and Short-term Funds	1,787,523	–	–	–	–	1,787,523	2,050,249
Statutory Deposit with the Central Bank of Sri Lanka	1,716,713	–	–	–	–	1,716,713	1,964,032
Other Assets	2,080,027	112,251	57,810	11,046	57,467	2,318,601	1,301,343
Property, Plant & Equipment	–	–	–	–	1,475,399	1,475,399	482,677
Investments in Subsidiaries	–	–	–	–	678,710	678,710	678,710
	5,584,263	112,251	57,810	11,046	2,211,576	7,976,949	6,477,011
<b>Total Assets</b>	<b>33,424,650</b>	<b>7,486,659</b>	<b>11,812,075</b>	<b>6,532,738</b>	<b>5,385,929</b>	<b>64,642,051</b>	<b>49,794,905</b>
<b>Liabilities</b>							
<b>Interest Bearing Liabilities</b>							
Deposits	18,332,769	7,989,172	3,231,202	731,702	16,885	30,301,730	25,309,442
Borrowings	8,848,331	7,985,809	1,807,171	968,845	–	19,610,156	12,468,054
Subordinated Loan	–	67,325	269,300	269,300	67,325	673,250	673,250
Debentures	–	–	330,000	1,170,000	–	1,500,000	500,000
	27,181,100	16,042,306	5,637,673	3,139,847	84,210	52,085,136	38,950,746
<b>Non-Interest Bearing Liabilities</b>							
Demand Deposits	961,192	961,193	1,922,385	–	–	3,844,770	3,356,315
Due to Banks	1,038,866	–	–	–	–	1,038,866	1,393,720
Deferred Liabilities	–	–	–	56,385	244,715	301,100	195,735
Other Liabilities	3,436,221	–	–	–	–	3,436,221	3,319,541
Stated Capital	–	–	–	–	3,109,771	3,109,771	2,061,554
Reserves	–	–	–	–	826,187	826,187	517,294
	5,436,279	961,193	1,922,385	56,385	4,180,673	12,556,915	10,844,159
<b>Total Liabilities and Shareholders' Funds</b>	<b>32,617,379</b>	<b>17,003,499</b>	<b>7,560,058</b>	<b>3,196,232</b>	<b>4,264,883</b>	<b>64,642,051</b>	<b>49,794,905</b>

# Notes to the Financial Statements

## 32.2 Group

(In Rs. '000)	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years	2008 Total	2007 Total
<b>Assets</b>							
<b>Interest Earning Assets</b>							
Money at Call and Short Notice	2,276,869	–	–	–	–	2,276,869	1,095,398
Government Treasury Bills and Bonds	5,319,911	4,284,264	3,613,575	1,121,082	–	14,338,832	11,330,683
Corporate Debt Securities	1,989,171	1,489,208	338,987	–	179,000	3,996,366	4,265,741
Bills of Exchange	422,986	–	–	–	–	422,986	561,609
Loans and Advances	14,029,203	1,936,723	3,050,547	4,306,917	3,054,699	26,378,089	22,418,411
Investments	294,102	1,093,050	1,141,090	1,250,000	2,715	3,780,957	2,392,434
Lease Rentals Receivable	855,874	2,470,043	4,762,613	1,053,541	873	9,142,944	7,254,137
	25,188,116	11,273,288	12,906,812	7,731,540	3,237,287	60,337,043	49,318,413
<b>Non-Interest Earning Assets</b>							
Cash and Short-term Funds	1,787,680	–	–	–	–	1,787,680	2,051,115
Statutory Deposit with the Central Bank of Sri Lanka	1,716,713	–	–	–	–	1,716,713	1,964,030
Other Assets	1,539,017	112,292	57,811	11,045	57,470	1,777,635	1,209,330
Property, Plant & Equipment	–	–	–	–	2,034,621	2,034,621	1,065,426
Goodwill	–	–	–	–	79,261	79,261	79,261
	5,043,410	112,292	57,811	11,045	2,171,352	7,395,910	6,369,164
<b>Total Assets</b>	<b>30,231,526</b>	<b>11,385,580</b>	<b>12,964,623</b>	<b>7,742,585</b>	<b>5,408,639</b>	<b>67,732,953</b>	<b>55,687,577</b>
<b>Liabilities</b>							
<b>Interest Bearing Liabilities</b>							
Deposits	18,332,769	7,989,172	3,231,202	731,702	16,885	30,301,730	25,309,442
Borrowings	11,630,873	7,544,957	1,908,844	1,369,812	–	22,454,486	18,077,013
Subordinated Loans	–	67,325	269,300	269,300	67,325	673,250	673,250
Debentures	–	–	330,000	1,170,000	–	1,500,000	500,000
	29,963,642	15,601,454	5,739,346	3,540,814	84,210	54,929,466	44,559,705
<b>Non-Interest Bearing Liabilities</b>							
Demand Deposits	961,186	961,186	1,922,372	–	–	3,844,744	3,356,315
Due to Banks	1,038,866	–	–	–	–	1,038,866	1,394,174
Deferred Liabilities	–	–	–	58,515	246,844	305,359	201,674
Other Liabilities	3,272,206	–	–	–	–	3,272,206	3,307,018
Stated Capital	–	–	–	–	3,109,771	3,109,771	2,061,554
Reserves	–	–	–	–	1,232,541	1,232,541	807,137
	5,272,258	961,186	1,922,372	58,515	4,589,156	12,803,487	11,127,872
<b>Total Liabilities and Shareholders' Funds</b>	<b>35,235,900</b>	<b>16,562,640</b>	<b>7,661,718</b>	<b>3,599,329</b>	<b>4,673,366</b>	<b>67,732,953</b>	<b>55,687,577</b>

## 33. POST-BALANCE SHEET EVENTS

No material events have taken place since 31st December 2008 that require disclosure or/and adjustments in these accounts, except for the following:

- Subject to approval of the Shareholders at the forthcoming Annual General Meeting, the Directors recommended the payment of a first and final dividend of Rs. 1.50 per share for the year ended 31st December 2008.

# Investor Information

## STOCK EXCHANGE LISTING

The ordinary shares of the Bank are all listed in the Colombo Stock Exchange. The audited Income Statement for the year ended 31st December 2008 and the audited Balance Sheet as at that date will be submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

## DISTRIBUTION OF ORDINARY SHAREHOLDERS

As at 31st December 2008				Resident			Non-Resident			Total	
Shareholders	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%		
Less than 1,000 shares	2,981	1,226,095	0.73	23	11,000	0.01	3,004	1,237,095	0.74		
1,001 - 5,000	1,708	3,784,007	2.26	24	66,065	0.04	1,732	3,850,072	2.30		
5,001 - 10,000	319	2,348,726	1.40	7	53,978	0.03	326	2,402,704	1.43		
10,001 - 50,000	269	5,541,876	3.30	12	323,144	0.19	281	5,865,020	3.49		
50,001 - 100,000	43	3,107,344	1.85	1	67,066	0.04	44	3,174,410	1.89		
100,001 - 500,000	40	7,707,417	4.60	2	580,566	0.35	42	8,287,983	4.95		
500,001 - 1,000,000	9	6,519,326	3.89	–	–	–	9	6,519,326	3.89		
Over 1,000,000	16	120,505,604	71.85	4	15,872,458	9.46	20	136,378,062	81.31		
	5,385	150,740,395	89.88	73	16,974,277	10.12	5,458	167,714,672	100.00		

There were 5,343 Resident and 63 Non-Resident Shareholders as at 31st December 2007.

## ANALYSIS OF SHAREHOLDERS

	31.12.2008			31.12.2007		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	5,152	43,427,354	25.89	5,109	39,537,663	31.43
Institutional	306	124,287,318	74.11	297	86,248,341	68.57
	<b>5,458</b>	<b>167,714,672</b>	<b>100.00</b>	<b>5,406</b>	<b>125,786,004</b>	<b>100.00</b>

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at 31st December 2008 was 77.84% (68.63% as at 31st December 2007).

## MARKET INFORMATION ON ORDINARY SHARES OF THE COMPANY

	2008	2007
<b>Market Value</b>		
Highest Value (Rs.)	37.75	37.50
Lowest Value (Rs.)	21.00	28.50
Value at end of the year (Rs.)	22.25	29.75
<b>Trading Statistics</b>		
No. of Transactions	3,994	6,603
No. of Shares Traded (mn)	20.47	29.72
Value of Shares Traded (Rs. mn)	635.29	1,004.00
<b>Market Capitalisation</b>		
Market Capitalisation (Rs. mn)	3,731.65	3,742.13

# Investor Information

## TWENTY LARGEST SHAREHOLDERS AS AT 31ST DECEMBER

Name of the Shareholder	2008		2007*	
	No. of Shares	%	No. of Shares	%
John Keells Holdings PLC	33,542,933	20.00	25,157,200	20.00
Mackinnon & Keells Financial Services Limited	16,603,752	9.90	12,452,814	9.90
Central Finance Company PLC	16,491,520	9.83	12,861,600	10.22
CF Growth Fund Limited	10,773,290	6.42	8,079,968	6.42
Indra Traders (Pvt) Limited	9,482,966	5.65	9,482,966	7.54
Dr. T. Senthilvel	7,836,000	4.67	12,044,700	9.58
HSBC International Nominees Limited - SSBT - The EMM Umbrella Funds	7,000,000	4.17	—	—
CF Insurance Brokers (Pvt) Limited	6,278,122	3.74	4,215,632	3.35
Mr. A.M.A. Almeshaal	4,378,725	2.61	2,681,700	2.13
Mr. S.N.P. Palihena and Mrs. A.S. Palihena	4,000,000	2.39	—	—
Mr. Y.S.H.I.K. Silva	3,440,348	2.05	3,089,520	2.46
HSBC International Nominees Limited - SSBT - Deutsche Bank AG Singapore A/c 01	3,202,000	1.91	—	—
Mr. A.D. Gunewardene	3,191,787	1.90	1,118,001	0.89
Rockland Distilleries Limited	1,733,333	1.03	1,300,000	1.03
Mr. M.J. Fernando	1,720,680	1.03	1,248,510	0.99
Renuka City Hotels PLC	1,592,000	0.95	1,036,350	0.82
Freudenberg Shipping Agencies Limited	1,376,300	0.82	1,376,300	1.09
Mrs. B. Thapar	1,291,733	0.77	818,800	0.65
Mr. M.F. Hashim	1,250,000	0.75	663,075	0.53
Hi-Line Trading (Pvt) Limited	1,192,573	0.71	918,280	0.73
	136,378,062	81.32	98,545,416	78.34
Others	31,336,610	18.68	27,240,588	21.66
<b>Total</b>	<b>167,714,672</b>	<b>100.00</b>	<b>125,786,004</b>	<b>100.00</b>

\* Comparative shareholdings as at 31st December 2007 of the twenty largest shareholders as at 31st December 2008.



# Investor Information

## WARRANTS 2010

### Stock Exchange Listing

The Warrants 2010 of the Bank are all listed in the Colombo Stock Exchange and are convertible into shares in March 2010. These were issued in February 2008.

### DISTRIBUTION OF WARRANTS 2010

As at 31st December 2008

Warrantholders	Resident			Non-Resident			Total		
	No. of Warrantholders	No. of Warrants	%	No. of Warrantholders	No. of Warrants	%	No. of Warrantholders	No. of Warrants	%
Less than 1,000 warrants	1,146	425,297	1.01	4	1,594	–	1,150	426,891	1.01
1,001 - 5,000	405	1,009,663	2.41	6	18,332	0.04	411	1,027,995	2.45
5,001 - 10,000	98	721,204	1.72	1	7,001	0.02	99	728,205	1.74
10,001 - 50,000	114	2,574,979	6.14	4	71,112	0.17	118	2,646,091	6.31
50,001 - 100,000	16	1,277,816	3.05	1	78,800	0.19	17	1,356,616	3.24
100,001 - 500,000	16	3,949,029	9.42	3	883,799	2.11	19	4,832,828	11.53
500,001 - 1,000,000	–	–	–	–	–	–	–	–	–
Over 1,000,000	7	27,213,017	64.90	2	3,697,025	8.82	9	30,910,042	73.72
	<b>1,802</b>	<b>37,171,005</b>	<b>88.65</b>	<b>21</b>	<b>4,757,663</b>	<b>11.35</b>	<b>1,823</b>	<b>41,928,668</b>	<b>100.00</b>

### ANALYSIS OF WARRANTHOLDERS

As at 31st December 2008

	No. of Warrantholders	No. of Warrants	%
Individual	1,646	14,456,811	34.48
Institutional	177	27,471,857	65.52
	<b>1,823</b>	<b>41,928,668</b>	<b>100.00</b>

### MARKET INFORMATION ON WARRANTS 2010 OF THE COMPANY

	2008
<b>Market Value</b>	
Highest Value (Rs.)	10.00
Lowest Value (Rs.)	1.70
Value at end of the year (Rs.)	3.10
<b>Trading Statistics</b>	
No. of Transactions	3,557
No. of Warrants Traded (mn)	10.912
Value of Warrants Traded (Rs. mn)	77.467
<b>Market Capitalisation</b>	
Market Capitalisation (Rs. mn)	129.98

# Investor Information

## TWENTY LARGEST WARRANTHOLDERS AS AT 31ST DECEMBER

Name of the Warrantholder	2008	
	No. of Warrants	%
John Keells Holdings PLC	8,385,733	20.00
Mr. Y.S.H.I.K. Silva	4,190,828	10.00
Mackinnon & Keells Financial Services Limited	4,150,938	9.90
Central Finance Company PLC. A/c No. 03	3,629,920	8.66
CF Growth Fund Limited A/c No. 01	2,693,322	6.42
Mr. A.D. Gunewardene	2,099,786	5.01
CF Insurance Brokers (Pvt) Limited	2,062,490	4.92
HSBC International Nominees Limited - SSBT - The EMM Umbrella Funds	2,000,000	4.77
Mr. A.M.A. Almeshaal	1,697,025	4.05
Mrs. B. Thapar	472,933	1.13
Rockland Distilleries Limited	433,333	1.03
Mr. M.J. Fernando.	430,170	1.03
Timex (Garments) Limited	416,666	0.99
Mr. S.N.P. Paliyana and Mrs. A.S. Paliyana	370,000	0.88
Mr. D.J.M. Blackler	307,366	0.73
Hi-Line Trading (Pvt) Limited	306,093	0.73
Sri Lanka Insurance Corporation Limited - General Fund	244,872	0.58
Renuka City Hotels PLC	226,750	0.54
Eagle Insurance Company PLC A/c No. 03	216,398	0.52
Mr. M.F. Hashim	200,025	0.48
	<b>34,534,648</b>	<b>82.37</b>
Others	7,394,020	17.63
<b>Total</b>	<b>41,928,668</b>	<b>100.00</b>

# Investor Information

## WARRANTS 2011

### Stock Exchange Listing

The Warrants 2011 of the Bank are all listed in the Colombo Stock Exchange and are convertible into shares in March 2011. These were issued in February 2008.

### DISTRIBUTION OF WARRANTS 2011

As at 31st December 2008

Warrantholders	Resident			Non-Resident			Total		
	No. of Warrantholders	No. of Warrants	%	No. of Warrantholders	No. of Warrants	%	No. of Warrantholders	No. of Warrants	%
Less than 1,000 warrants	1,304	345,863	1.65	4	770	–	1,308	346,633	1.65
1,001 - 5,000	257	603,601	2.88	7	14,114	0.07	264	617,715	2.95
5,001 - 10,000	55	403,102	1.92	1	9,633	0.05	56	412,735	1.97
10,001 - 50,000	52	1,046,141	4.99	2	47,000	0.22	54	1,093,141	5.21
50,001 - 100,000	6	472,772	2.26	–	–	–	6	472,772	2.26
100,001 - 500,000	10	1,914,779	9.13	3	651,149	3.11	13	2,565,928	12.24
500,001 - 1,000,000	–	–	–	2	1,848,512	8.82	2	1,848,512	8.82
Over 1,000,000	7	13,606,507	64.90	–	–	–	7	13,606,507	64.90
	<b>1,691</b>	<b>18,392,765</b>	<b>87.73</b>	<b>19</b>	<b>2,571,178</b>	<b>12.27</b>	<b>1,710</b>	<b>20,963,943</b>	<b>100.00</b>

### ANALYSIS OF WARRANTHOLDERS

As at 31st December 2008

	No. of Warrantholders	No. of Warrants	%
Individual	1,550	7,567,051	36.10
Institutional	160	13,396,892	63.90
	<b>1,710</b>	<b>20,963,943</b>	<b>100.00</b>

### MARKET INFORMATION ON WARRANTS 2011 OF THE COMPANY

	2008
<b>Market Value</b>	
Highest Value (Rs.)	11.00
Lowest Value (Rs.)	1.60
Value at end of the year (Rs.)	4.00
<b>Trading Statistics</b>	
No. of Transactions	2,836
No. of Warrants Traded (mn)	7.231
Value of Warrants Traded (Rs. mn)	53.238
<b>Market Capitalisation</b>	
Market Capitalisation (Rs. mn)	83.86

# Investor Information

## TWENTY LARGEST WARRANTHOLDERS AS AT 31ST DECEMBER

Name of the Warrantholder	No. of Warrants	2008
		%
John Keells Holdings PLC	4,192,866	20.00
Mr. Y.S.H.I.K. Silva	2,095,414	10.00
Mackinnon & Keells Financial Services Limited	2,075,469	9.90
Central Finance Company PLC A/c No. 03	1,814,960	8.66
CF Growth Fund Limited A/c No. 01	1,346,661	6.42
Mr. A.D. Gunewardene	1,049,892	5.01
CF Insurance Brokers (Pvt) Limited	1,031,245	4.92
HSBC International Nominees Limited - SSBT - The EMM Umbrella Funds	1,000,000	4.77
Mr. A.M.A. Almeshaal	848,512	4.05
Mr. K.N.J. Balendra	290,900	1.39
Mr. D.V. Perry	261,000	1.24
Mrs. B. Thapar	236,466	1.13
Hi-Line Trading (Pvt) Limited	223,146	1.06
Mr. P.H.D. Waidyatilaka	220,016	1.05
Rockland Distilleries Limited	216,666	1.03
Mr. M.J. Fernando.	215,085	1.03
Timex (Garments) Limited	208,333	0.99
Mr. S.N.P. Palihena and Mrs. A.S. Palihena	185,000	0.88
Mr. D.J.M. Blackler	153,683	0.73
Mr. K. Balendra	125,000	0.60
	17,790,314	84.86
Others	3,173,629	15.14
<b>Total</b>	<b>20,963,943</b>	<b>100.00</b>

## DEBENTURES

### Stock Exchange Listing

The Unsecured, Subordinated, Redeemable Debentures 2006/10, 2006/11, 2006/12 and 2008 /13 of the Bank are listed in the Colombo Stock Exchange. However, these debentures have not been traded from the date of listing up to 31st December 2008.

Debenture Category	Interest Payable Frequency	Interest Rate %		Interest Rate of Comparable Government Security %	Other Ratios	
		Coupon Rate	Effective Annual Yield		Interest Yield %	YTM %
2006/10	Quarterly	14.10	14.86	20.28	15.50	20.28
2006/11	Quarterly	14.10	14.86	19.94	14.50	19.24
2006/12	Quarterly	14.10	14.86	19.99	6.85	19.99
2008/13	Annually	21.00	21.00	18.62	7.50	18.62

# Ten Year Summary

Group	1999 Rs. mn	2000 Rs. mn	2001 Rs. mn	2002 Rs. mn	2003 Rs. mn	2004 Rs. mn	2005 Rs. mn	2006 Rs. mn	2007 Rs. mn	2008 Rs. mn
<b>OPERATING RESULTS</b>										
Gross Income	147	303	701	1,148	2,115	2,374	3,086	5,922	9,342	13,877
Interest Income	97	253	607	1,001	1,574	1,708	2,448	4,991	8,011	12,094
Interest Expenses	(28)	(142)	(385)	(690)	(1,102)	(1,118)	(1,504)	(3,280)	(5,900)	(9,185)
Net interest Income	69	111	222	311	472	590	944	1,711	2,110	2,909
Fee and Commission Income	6	26	52	81	117	139	199	275	307	338
Foreign Exchange Income	4	28	39	56	105	143	124	192	329	496
Other Operating Income	30	21	16	23	319	251	314	464	695	949
Net Income	109	186	329	471	1,013	1,123	1,581	2,642	3,442	4,692
Operating Expenses	(70)	(160)	(296)	(401)	(736)	(1,009)	(1,383)	(2,104)	(2,594)	(3,664)
Profit before Taxation	39	26	33	70	277	114	198	538	848	1,028
Provision for Taxation	(17)	(6)	(10)	(24)	(25)	(69)	(73)	(215)	(343)	(435)
<b>Profit after Taxation</b>	<b>22</b>	<b>20</b>	<b>23</b>	<b>46</b>	<b>252</b>	<b>45</b>	<b>125</b>	<b>323</b>	<b>505</b>	<b>593</b>
<b>BALANCE SHEET</b>										
<b>ASSETS</b>										
Cash and Short-Term Funds	445	894	986	1,023	1,606	1,977	1,633	4,780	3,147	4,064
Statutory Deposit with the Central Bank of Sri Lanka	84	169	169	345	347	609	955	1,315	1,964	1,717
Government Treasury Bills and Bonds	149	322	396	6,799	7,489	5,771	5,341	10,323	11,331	14,339
Investments	1	1	186	243	50	632	621	1,629	2,392	3,781
Loans & Advances:										
Bills of Exchange	24	91	78	386	427	381	336	291	562	423
Loans and Advances	769	1,610	2,288	4,591	6,196	9,162	12,299	18,839	22,418	26,378
Lease Receivables	–	–	–	–	–	71	329	5,191	7,254	9,143
Corporate Debt Securities	100	182	788	1,848	1,739	2,103	2,640	2,672	4,266	3,997
Other Assets	11	57	82	212	519	558	785	998	1,209	1,778
Property, Plant & Equipment	98	246	263	298	323	381	414	1,133	1,065	2,035
Goodwill	–	–	–	99	77	68	59	451	79	79
<b>Total Assets</b>	<b>1,681</b>	<b>3,573</b>	<b>5,236</b>	<b>15,897</b>	<b>18,773</b>	<b>21,713</b>	<b>25,412</b>	<b>47,622</b>	<b>55,687</b>	<b>67,733</b>
<b>LIABILITIES</b>										
Deposits	888	2,139	2,893	5,042	6,571	10,460	14,314	20,670	28,666	34,147
Borrowings	113	571	1,469	9,238	9,583	8,105	7,275	19,374	18,077	22,455
Due to Banks	30	58	1	427	507	457	199	1,077	1,394	1,039
Other Liabilities	70	195	221	465	676	904	1,388	2,212	3,307	3,272
Deferred Liabilities	15	24	44	71	101	97	100	193	201	305
Debentures	–	–	–	–	–	–	–	560	500	1,500
Subordinated Loan	–	–	–	–	–	351	673	673	673	673
<b>Total Liabilities</b>	<b>1,116</b>	<b>2,987</b>	<b>4,628</b>	<b>15,243</b>	<b>17,438</b>	<b>20,374</b>	<b>23,949</b>	<b>44,760</b>	<b>52,818</b>	<b>63,391</b>

# Ten Year Summary

	1999 Rs. mn	2000 Rs. mn	2001 Rs. mn	2002 Rs. mn	2003 Rs. mn	2004 Rs. mn	2005 Rs. mn	2006 Rs. mn	2007 Rs. mn	2008 Rs. mn
<b>SHAREHOLDERS' FUNDS</b>										
Share Capital/Stated Capital	500	500	500	500	850	850	850	2,062	2,062	3,110
Reserve Fund	4	6	7	8	11	13	16	29	57	80
Reserves	60	80	101	146	474	476	597	771	750	1,152
<b>Total Shareholders' Funds</b>	<b>565</b>	<b>586</b>	<b>608</b>	<b>654</b>	<b>1,335</b>	<b>1,339</b>	<b>1,463</b>	<b>2,862</b>	<b>2,869</b>	<b>4,342</b>
<b>Total Liabilities &amp; Shareholders' Funds</b>										
	1,681	3,573	5,236	15,897	18,773	21,713	25,412	47,622	55,687	67,733
<b>Commitments and Contingencies</b>	<b>178</b>	<b>912</b>	<b>1,365</b>	<b>3,480</b>	<b>3,972</b>	<b>4,886</b>	<b>3,832</b>	<b>13,276</b>	<b>18,138</b>	<b>25,728</b>
<b>Ratios and Other Information</b>										
<b>Ratios</b>										
Income Growth (%)	–	–	131.35	63.77	84.23	12.25	29.99	91.91	57.74	48.55
Return on Average Assets (%)	–	–	0.52	0.44	1.45	0.22	0.53	0.88	0.98	0.96
<b>Capital adequacy (%)</b>										
Tier I	–	–	15.95	10.70	14.07	10.44	8.74	7.86	7.20	10.31
Tier I & II	–	–	16.93	11.56	15.24	13.91	13.92	11.86	10.44	15.70
Return on Equity (%)	–	–	3.78	7.03	18.88	3.36	8.54	11.30	17.62	16.45
<b>Information on Ordinary Shares</b>										
Market Value per Share (Rs.)	–	–	15.00	16.75	28.25	18.25	23.50	28.25	29.75	22.25
Earnings per Share (Rs.) - Group	–	–	–	0.91	3.52	0.53	1.47	2.44	3.91	3.67
Price Earnings Ratio (Times) - Bank	–	–	32.61	34.90	32.47	49.75	27.33	11.58	7.61	6.06
Net Assets Value per Share (Rs.)	–	–	12.16	13.08	15.71	15.75	17.21	21.60	22.81	25.89
<b>Other Information</b>										
No. of Employees	–	–	164	271	405	479	549	820	1,239	1,615
No. of Branches/Mini Branches	–	–	11	17	20	26	28	30	31	36
Personal Banking Centres	–	–	–	–	–	–	–	–	–	6
Leasing Centres	–	–	–	–	–	–	–	5	8	8
No. of ATMs	–	–	6	13	20	30	33	38	38	47

*Ratios and Other Information are not given for the year 2000 as it was the first full year of operations.*

# Glossary

## ACCEPTANCES

Promise to pay created when the drawee of a time draft stamps or writes the words 'accepted' above his signature and a designated payment date.

## ACCRUAL BASIS

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

## BILLS FOR COLLECTION

A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

## CAPITAL ADEQUACY RATIO

The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements and as modified by the Central Bank of Sri Lanka to suit local requirements.

## CAPITAL EMPLOYED

Sum total of liabilities and shareholders' funds.

## CASH EQUIVALENTS

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## COMMITMENTS

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

## CONTINGENCIES

A condition or situation existing at Balance Sheet date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

## CORPORATE GOVERNANCE

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and the direction of entity, the supervision of executive actions and accountability to owners and others.

## DEFERRED TAX

Sum set aside for tax in the Financial Statements that will become payable in a financial year other than the current financial year.

## DOCUMENTARY CREDITS

Commercial Letters of Credit provided for payment by a bank to the named beneficiary, usually the seller of merchandise, against delivery of documents specified in the credit.

## EARNINGS PER ORDINARY SHARE

Profit after taxation and after dividend on Preference Shares divided by the number of ordinary shares in issue.

## EFFECTIVE TAX RATE

Provision for taxation divided by the profit before taxation.

## FINANCE LEASE

A contract whereby a lessor conveys the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains the ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

## FOREIGN EXCHANGE PROFIT

Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/last Balance Sheet date and the settlement/Balance Sheet date. Also arises from trading in foreign currencies.

## FORWARD EXCHANGE CONTRACT

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

## GUARANTEES

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owning a debt if that person fails to perform.

## GROSS DIVIDENDS

The portion of profits distributed to the shareholders including tax withheld.

## HISTORICAL COST CONVENTION

Recording transactions at the actual value received or paid.

## INTEREST IN SUSPENSE

Interest suspended on non-performing loans and advances.

## INTEREST MARGIN

Net interest income expressed as a percentage of interest earning assets.

## LIQUID ASSETS

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

## LOAN LOSSES AND PROVISIONS

Amounts set aside against possible losses on loans, advances and other credit facilities as a result of their becoming partly or wholly uncollectible.

## MARKET CAPITALISATION

Number of ordinary shares in issue multiplied by the market value of a share as at the year-end.

## MATERIALITY

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

## NET ASSETS VALUE PER ORDINARY SHARE

Shareholders' funds excluding Preference Shares divided by the number of ordinary shares in issue.

## NET DIVIDENDS

Dividends net of withholding tax.

## NET INTEREST INCOME

Difference between what banks earn on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

## NON-PERFORMING LOANS

A loan placed on a cash basis (i.e. Interest income is only recognised when cash is received) because, there is reasonable doubt regarding the collectibility of principal and interest. Loans are automatically placed on cash basis when three instalments are overdue.

## OFF-BALANCE SHEET TRANSACTIONS

Transactions that are not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

## PRUDENCE

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

## RETURN ON EQUITY

Profit after Tax divided by the average shareholders' funds.

## RELATED PARTIES

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

## RETURN ON AVERAGE ASSETS

Profit after Tax divided by the average assets.

## RISK WEIGHTED ASSETS

On Balance Sheet assets and the credit equivalent of off Balance Sheet assets multiplied by the relevant risk weighting factors.

## REPURCHASE AGREEMENT

Contract to sell and subsequently repurchase securities at specified date and price.

## REVERSE REPURCHASE AGREEMENT

Transaction involving the purchase of securities by a bank or dealer and resale back to the seller at a future date and specified price.

## REVENUE RESERVE

Reserve set aside for future distribution and investment.

## SEGMENTAL ANALYSIS

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

## SHAREHOLDERS' FUNDS

Total of stated capital and capital and revenue reserves.

## STATUTORY RESERVE FUND

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

## SUBSTANCE OVER FORM

The consideration that the accounting treatment and the presenting in Financial Statements of transactions and the events should be governed by their substance and financial reality and not merely by legal form.

## SUBSIDIARY COMPANY

An entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as a parent).

## TIER I CAPITAL

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

## TIER II CAPITAL

Supplementary capital representing revaluation reserves, general provisions and other capital instruments which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debt.

## VALUE ADDED

Value of wealth created by providing banking and other related services less the cost of providing such services.



# Notice of Meeting

Notice is hereby given that the Tenth Annual General Meeting of Nations Trust Bank PLC will be held on 30th March 2009 at 10.00 a.m. at the Auditorium of The Institute of Chartered Accountants of Sri Lanka at No. 30A, Malalasekera Mawatha, Colombo 7.

The business to be brought before the meeting will be:

1. To read the notice convening the Meeting.
2. To receive and consider the Annual Report of the Board of Directors and the Statement of Accounts for the period ended 31st December 2008 with the Report of the Auditors thereon.
3. To declare a first and final dividend of Rs. 1.50 per share on the ordinary shares of the Company.
4. To re-elect Mr. S.C. Ratnayake, who retires by rotation at the Annual General Meeting as a Director.
5. To re-elect Mr. J.R.F. Peiris, who retires by rotation at the Annual General Meeting as a Director.
6. To re-elect Mr. C.H.S.K. Piyaratna, who retires by rotation at the Annual General Meeting as a Director.
7. To reappoint Auditors and to authorise the Directors to determine their remuneration.
8. To authorise the Directors to determine and make donations.
9. To consider any other business of which due notice has been given.

**Notes:**

- i. A member unable to attend is entitled to appoint a proxy to attend and vote in his/her place.
- ii. A proxy need not be a member of the Company.
- iii. A member wishing to vote by proxy at the meeting may use the Proxy Form enclosed.
- iv. To be valid, the completed Proxy Form must be lodged at the Registered Office of the Company not less than 48 hours before the meeting.

By Order of the Board

**Theja Silva**

*Company Secretary*

Colombo

17th February 2009

## Notes

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## Notes

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# Form of Proxy

I/We..... of  
 ..... being  
 a member/members of Nations Trust Bank PLC, hereby appoint ..... of  
 ..... or failing him/her

Mr. A.D. Gunewardene	or failing him
Mr. E.H. Wijenaik	or failing him
Mr. S.C. Ratnayake	or failing him
Mr. J.R.F. Peiris	or failing him
Mr. A.K. Gunaratne	or failing him
Dr. (Ms.) Dushni Weerakoon	or failing her
Mr. M.E. Wickremesinghe	or failing him
Mr. A.R. Rasiah	or failing him
Mr. C.H.S.K. Piyaaratna	or failing him
Mr. Z.H. Zavahir	

as my/our Proxy to represent me/us and to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 30th March 2009 at 10.00 a.m. and at any adjournment thereof and at every poll which may be taken in consequence thereof.

The Proxy may vote as he/she thinks fit on any other resolution brought before the meeting and may also speak on my/our behalf at the meeting.

In witness I/we placed my/our hand/s hereto on this ..... day of March 2009.

.....  
 Signature/s

Please indicate with a (✓) in the space below how you wish your votes to be cast:

	For	Against
1. To adopt the Annual Report of the Board of Directors and the Statement of Accounts for the period ended 31st December 2008 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a first and final dividend of Rs. 1.50 per share on the ordinary shares of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. S.C. Ratnayake, who retires by rotation at the Annual General Meeting as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr. J.R.F. Peiris, who retires by rotation at the Annual General Meeting as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Mr. C.H.S.K. Piyaaratna who retires by rotation at the Annual General Meeting as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
6. To reappoint Auditors and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
7. To authorise the Directors to determine and make donations.	<input type="checkbox"/>	<input type="checkbox"/>

# Form of Proxy

## Instructions as to Completion

1. Please perfect the Form of Proxy by filling in legibly your full name and address, by signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the Registered Office of the Company at No. 242, Union Place, Colombo 2, not less than 48 hours before the time appointed for the holding of the Meeting.
3. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney should accompany the Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
4. If the appointer is a Company or Corporation, this Form must be executed under the Common Seal or the hand of a duly Authorised Officer.
5. If this Form is returned without any indication as to how the person appointed as Proxy shall vote, the Proxy shall exercise his/her discretion as to how he/she votes, or whether he/she abstains from voting.

Please fill in the following details:

NIC No.: .....

Share Folio No.: .....

Name: .....

Address: .....

.....

.....

.....

Jointly with: .....

# Corporate Information

## Registered Name

Nations Trust Bank PLC

## Legal Form

A Licensed Commercial Bank established under the Banking Act No. 30 of 1988.

A Public Limited Liability Company incorporated in Sri Lanka.

## Company Number

PQ 118

## Date of Incorporation

21st January 1999

## Registered Office

No. 242, Union Place, Colombo 2.

Telephone : 4313131

Facsimile : 4313132

E-mail : info@nationstrust.com

## Company Secretary

Theja Silva

## Auditors

Messrs Ernst & Young  
Chartered Accountants,  
No. 201, De Saram Place, Colombo 10.

## Credit Rating

A (Ika) from Fitch Ratings Lanka Ltd.

## Directors

A.D. Gunewardene (Chairman)  
E.H. Wijenaik (Deputy Chairman)  
A.R. Rasiah (Senior Director)  
S.C. Ratnayake  
J.R.F. Peiris  
A.K. Gunaratne  
C.H.S.K. Piyaratna  
M.E. Wickremesinghe  
Dr. (Ms.) D. Weerakoon  
Z.H. Zavahir

## Board Supervisory Committee

C.H.S.K. Piyaratna (Chairman)  
E.H. Wijenaik  
A.K. Gunaratne

## Board Audit Review Committee

A.R. Rasiah - (Chairman)  
A.K. Gunaratne  
Dr. (Ms.) D. Weerakoon  
A. Fernandez - Head of Internal Audit -  
(Secretary - Board Audit Review Committee)

## Human Resources and Remuneration Committee

A.D. Gunewardene - (Chairman)  
Dr. (Ms.) D. Weerakoon  
A.R. Rasiah

## Nominations Committee

M.E. Wickremesinghe - (Chairman)  
A.D. Gunewardene  
E.H. Wijenaik

## Credit Committee

C.H.S.K. Piyaratna  
E.H. Wijenaik  
A.K. Gunaratne  
A.D. Gunewardene - (Alternate J.R.F. Peiris)

## Integrated Risk Management Committee

J.R.F. Peiris - (Chairman)  
A.K. Gunaratne  
M.E. Wickremesinghe

